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Global economy
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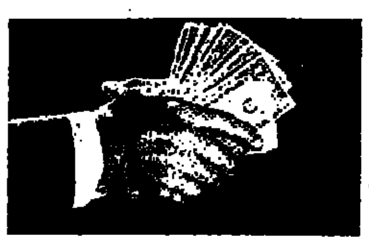

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World Business Newspaper http://www.FT.com TUESDAY MAY 13 1997

IBJ set to raise prime long-term rate above 3%

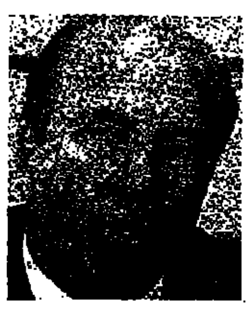
The Industrial Bank of Japan is to raise its prime long-term lending rate above 3 per cent in the first such increase for a year. The decision highlights the shift that has occurred in Tokyo's financial markets, as speculation has mounted that Japanese rates might rise this year. The IBJ rate is taken as a benchmark for a range of personal, corporate and housing loans, so its increase could push up borrowing costs in a range of sectors. Page 20; Analysis, Page 6

Emu winners and losers: Germany could lose more than $10bn in central banking profits during five years as a result of European economic and monetary union, says a report today. The Netherlands, Spain, Sweden and Austria would also lose out, while the UK and France would gain. Another report says company treasurers are unprepared for Emu. Page 3

Bre-X wife's belief: An Indonesian wife of Michael de Guzman, one of two Bre-X Minerals geologists who claimed to have discovered a record gold deposit in Indonesia, believes her husband is alive despite reports that he plunged to his death from a helicopter. Mr de Guzman is believed to have had several wives. Page 21

Shell criticised: Royal Dutch/Shell will come under renewed attack from environmental and human rights activists today as it prepares to fend off a shareholder resolution critical of its policies in Peru and Nigeria. Page 20

Delta chief Ron Allen to quit at 55:



Delta Air Lines surprised the industry by announcing that Ron Allen, chairman and chief executive for the last 10 years, would leave when his contract expires on July 31. The company said Mr Allen was retiring, but at 55 he is short of the usual retirement age. Page 21

European defence: Britain's new Labour government gets its first chance to air its views on European defence at a ministerial meeting of the 10-nation Western European Union today - but French ambitions to merge the WEU into the EU are likely to be thwarted. Page 3

BIS opens archives: The Bank for International Settlements, one of the world's most secretive financial institutions, has agreed to open its archives in an effort to clear the debate about its wartime record in buying gold from Nazi Germany. Page 3

Polish privatisation: One of central Europe's most innovative privatisation programmes took a major step forward when Poles started to take up their shares in 15 national investment funds due to be listed on the Warsaw Stock Exchange next month. Page 2

European defence: The new Labour government gets its first chance to air its views on European defence at a ministerial meeting of the 10-nation Western European Union today - but French ambitions to merge the WEU into the EU are likely to be thwarted. Page 3

Veba expands into US: Veba, the German conglomerate which will list its shares on the New York Stock Exchange in October, plans to spend $2.3bn expanding its North American business in the next five years. Page 21

Moscow signs treaty with Chechnya: The presidents of Russia and Chechnya vowed to end 400 years of enmity in signing a peace agreement in Moscow and promising joint action to rebuild the region. Page 2

Centre-left keeps Italian cities: Italy's right wing opposition captured Milan but failed to wrest Turin and Trieste from the ruling centre-left in the second round of voting in local elections. Page 2

Yeltsin backs subsidy shake-up: Russian president Boris Yeltsin has thrown his authority behind politically sensitive proposals to tackle one of the most costly left-overs of the communist era – subsidised housing. Page 20

South Asia milestone: Indian prime minister Inder Kumar Gujral and Pakistan counterpart Nawaz Sharif agreed to normalise relations. Page 6

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	7,272.15	(+102.62)
NASDAQ Composite	1,344.09	(+9.04)
Europe and Far East		
CAC40	2,693.09	(+59.18)
DAX	3,575.37	(+12.96)
FTSE 100	4,669.6	(+38.7)
Nikkei	20,143.51	(+340.73)

■ US LUNCHTIME RATES	
Federal Funds	$5\frac{1}{2}$%
3-mth Treas Bills: Yld	5.142%
Long Bond	$96\frac{3}{32}$
Yield	6.864%

■ OTHER RATES		
UK: 3-mo Interbank	$6\frac{15}{32}$%	($6\frac{15}{16}$%)
UK: 10 yr Gilt	$102\frac{1}{8}$	($101\frac{3}{4}$)
France: 10 yr OAT	99.34	(98.65)
Germany: 10 yr Bund	102.18	(101.76)
Japan: 10 yr JGB	102.8157	(102.853)

■ NORTH SEA OIL (Argus)		
Brent Dated	$19.44	(18.64)

■ GOLD		
New York: Comex	$347.7	(348.3)
London: close	$350.05	(345.9)

■ DOLLAR		
New York: lunchtime		
£	1.6238	
DM	1.70245	
FFr	5.7395	
SFr	1.436	
Y	118.6	
London:		
£	1.6248	(1.6194)
DM	1.7004	(1.6934)
FFr	5.732	(5.713)
SFr	1.4356	(1.4283)
Y	118.495	(121.7)
Tokyo close:	Y 118.60	

■ STERLING		
DM	2.7628	(2.7423)

9 770174 736128 20

Bahrain Din1.300; Belgium BFr75; Cyprus C£1.30; Denmark DKr20.00; Estonia EKr34.00; Finland FmK18.00; France FFr12.00; Gibraltar £0.75; Greece Dr450; Hungary Ft340; Iceland IKr250; Jordan JD1.75; Kuwait Fils.750; Latvia Ls 1.65; Lithuania Lit21.00; Luxembourg LFr75; Morocco Dh18.00; Netherlands Fl4.75; Nigeria N120.00; Norway NKr22.00; Qatar QR13.00; S.Arabia SR13.00; Syria SP 80.00; Tunisia Din2.000; Oman OR1.75; Poland Zl 7.50; Portugal (mainland) Esc255; S.Africa R12.00; Spain Pta250; Sweden SKr22.00

GrandMet, Guinness to merge

Shares surge on $38bn plan to create the world's largest wines and spirits group

Guinness chairman Tony Greener (left) and GrandMet chairman George Bull. An alliance between the companies had been under discussion for three years, according to Mr Greener

By John Willman and Ross Tieman

Two British companies, Grand Metropolitan and Guinness, threw the global drinks business into turmoil yesterday by announcing plans to create the world's largest wines and spirits group.

Shares in both companies rose sharply on news of the merger – which is expected to set off a wave of consolidation in the industry – valuing the combined group at £23.8bn ($38bn).

Sales of the new group, which has some of the world's most famous brands, are twice those of the two next largest spirits and wines companies – Seagram of Canada and Allied Domecq of the UK.

GrandMet owns J&B scotch whisky, Smirnoff vodka and Bailey's Original Irish Cream. Guinness, known best for the eponymous stout, also holds Johnny Walker and Bell's whisky and Gordon's gin.

Mr Ron Littleboy, drinks analyst at Nomura in London, said: "This company combination is so big and so potentially powerful that every other major spirits company must be quaking in its boots."

The companies said they expected few problems from competition regulators. They warned the European Commission, which will handle competition issues on the merger in the EU, last Wednesday.

But Seagram, the world's second-largest spirits company, yesterday said it would oppose the planned merger in representations to competition authorities around the globe.

Mr Robert Matschullat, chief financial officer of Seagram, said United Distillers & Vintners, the proposed joint spirits company, would control half the Scotch whisky business worldwide. In the US, the world's largest and most profitable spirits market, he said UDV would sell three out of every four bottles of standard scotch sold, and one in every two bottles of premium gin.

"This combination would create serious anti-trust problems in the US, Europe, and we believe probably elsewhere," he said. "I don't know whether they think the regulators are asleep."

The merger, agreed by the boards of both companies, has run into opposition from Mr Bernard Arnault, chairman of LVMH, the French luxury goods group which has a 14.2 per cent stake in Guinness. A Guinness board-member, Mr Arnault voted against the deal.

The merged company – to be called GMG Brands – will have four divisions: UDV; Pillsbury, the food group, and Burger King, the fast-food chain, from GrandMet; and Guinness Brewing Worldwide.

The companies say they expect to reduce costs in the merged spirits and wines businesses by £175m a year on sales of £6bn last year.

"The geographic fit and the brand fit are pretty good," said Mr Colin Davies, analyst with Goldman Sachs. "I'm surprised they haven't done it before."

In fact, an alliance between GrandMet and Guinness has been under discussion for three years, according to Mr Tony Greener, the Guinness chairman who will be joint chairman of GMG Brands.

Mr George Bull, chairman of GrandMet and the other joint chairman, said he had broached yesterday's merger at dinner with Mr Greener on April 10. The merger will take the form of a one-for-one share swap, with GrandMet shareholders receiving Guinness shares.

GrandMet shareholders will end up with around 52.7 per cent of GMG Brands, and Guinness shareholders 47.3 per cent. The new group plans to hand back £2.4bn to shareholders in the form of redeemable shares worth 60p per GMG Brands ordinary share. This will enable it to maintain an efficient capital structure, said Mr Bull. According to Mr Greener, the deal will not affect relationships with LVMH or the group's 34 per cent stake in Moet-Hennessy, LVMH's drinks subsidiary. But analysts believe that Mr Arnault may sell the stake in the merged group based on his 14 per cent of Guinness shares.

GrandMet shares closed 76.5p up yesterday, at 591.5p. Guinness rose 86p to 602.5p.

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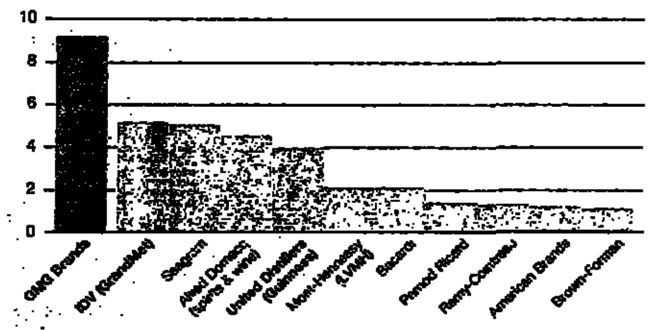
GrandMet and Guinness shake up the drinks industry

Global top 10 wines and spirits companies by turnover, 1995 ($bn)



Source: Company accounts, Datamonitor estimates 1995

Italy told to put finances in order

European ministers warn on meeting Emu deficit target

By Lionel Barber in Brussels and Richard Adams in London

Italy yesterday received a sharp warning from its European Union partners that it is relying too much on one-off measures to meet the entry criteria for economic and monetary union.

EU finance ministers meeting in Brussels said the Italian government needed to take more steps to meet the Maastricht deficit target of 3 per cent of gross domestic product in 1997 and beyond.

"The measures taken in 1997 which have a temporary nature should be replaced by structural measures with a permanent impact on the budget," the ministers said.

The statement reinforced a recent European Commission growth forecast which cast doubt on Italy's chances of joining Emu on schedule on January 1 1999. The forecast provoked outrage in Rome.

Ministers approved nine reports as part of the EU's excessive deficit procedure which calls on governments running high deficits to put their finances in order.

Finland and the Netherlands were taken off the blacklist, joining Luxembourg, Ireland and Denmark. Britain's report was delayed pending a Budget from Mr Gordon Brown, the new UK chancellor of the exchequer, who made his debut in the European finance ministers' forum.

A British official said the Budget would reinforce the UK's ability to meet the criteria, but this was not a signal that the government had become more enthusiastic about joining Emu in 1999.

Mr Brown reiterated that sterling's participation in the first wave of Emu was "highly unlikely", although he said the option to join at any stage remained open.

He also said Britain had no plans to rejoin the European exchange rate mechanism as a prelude to Emu membership. However, he rejected the view given yesterday by Mr Theo Waigel, German finance minister, that sterling must rejoin the mechanism to qualify for Emu.

The pound rose more than two pfennigs against the D-Mark within minutes of his remarks, and closed at DM2.76

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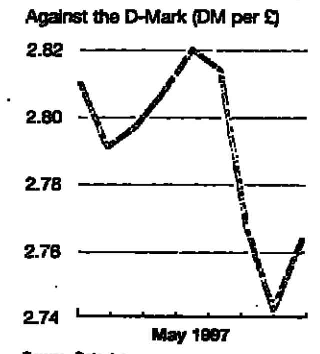
Sterling since the election

Against the D-Mark (DM per £)



Source: Datastream

China may seek greater holding in HK Telecom

No pressure on C&W to sell, says Citic chief

By John Ridding in Hong Kong

China may seek a bigger stake in Hongkong Telecom following its acquisition last week of a 7.7 per cent holding, according to Mr Larry Yung, chairman of Citic Pacific, the Beijing-backed conglomerate that sold the shares.

But Mr Yung, one of Hong Kong's main business powerbrokers, said any deal would have to be on commercial terms and that Cable and Wireless, the UK company which holds 59 per cent of Hongkong Telecom, would not be pressured to sell.

"I envisage that China would expect to be in a significant position," said Mr Yung. "However, whether Cable and Wireless would go below 50 per cent is a matter for them.

"Under one country, two systems, no-one can force them to sell," he added, referring to the policy which underpins Hong Kong's return to China in July.

Industry analysts said the HK$11.39bn ($1.47bn) sale of the shares to China Everbright, an investment arm of the state council – China's cabinet – would satisfy political pressures ahead of the territory's return to China and would help Hongkong Telecom expand on the mainland.

But while telecoms analysts in Hong Kong described the sale as a first step in a bigger restructuring, the Citic Pacific chief said he had received no indication of a broader plan.

He suggested, however, that Hongkong Telecom would benefit from closer ties with mainland operators, given the pressure to end its monopoly on international direct-dial services from Hong Kong.

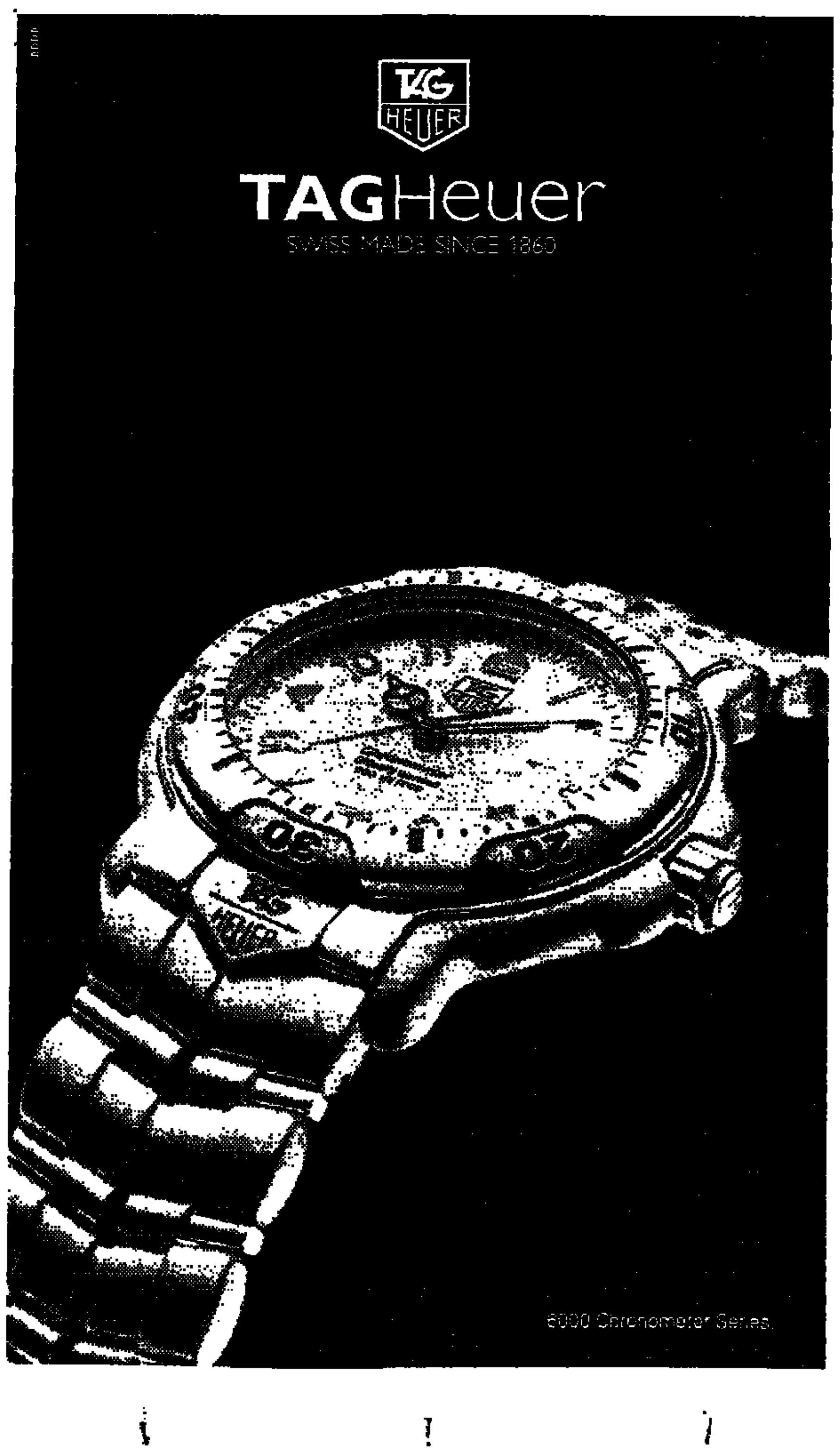
"Given the uncertainty of the franchise it would probably make sense for them to do a deal with China," he said.

Despite Friday's deal, Mr Yung said Citic Pacific remained interested in the telecoms sector. He held talks last week with Ms Li Huifen, president of China Unicom, the fledgling mainland operator, concerning the possibility of joint ventures in local lines and international services.

However Mr Yung said he would need guarantees on rates of return and foreign exchange risks.

Mr Yung said the sale, which will cut the company's debt-to-equity ratio from about 30 per cent to 18 per cent, was a significant step in Citic Pacific's shift from passive investment to a more hands-on strategy. He said proceeds would allow increased investment in infrastructure.

Under discussion on the mainland are an extension at the Ligang power plant in central China, and infrastructure projects with city governments. Mr Yung also outlined power and property development projects in Hong Kong with China Light and Power, in which Citic took a 20 per cent stake in January.



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EUROPEAN NEWS DIGEST

$600m loan for Romania

In a sign of encouragement from international financiers, the president of the World Bank announced yesterday that Romania would get a $600m loan this year to support market reform.

In a statement after meeting Romania's prime minister Mr Victor Ciorbea, yesterday, Mr James Wolfensohn said he was "impressed by progress made on the economy".

"The government is following a correct course to alleviate poverty and to get the economy moving again," he said, praising the "enormous progress" made in the five months since the new government took office.

In April, the International Monetary Fund approved a $430m loan to Romania. *AP, Bucharest*

Telecoms poser for Bonn

Chancellor Helmut Kohl's government faces a politically difficult choice about who should be the first president of Germany's future telecommunications industry watchdog, after a politician from the opposition Social Democrat party was yesterday nominated for the post.

The federal post ministry's regulatory council yesterday agreed by 17 votes to 13 that Mr Arne Börnsen, the SPD chairman of the Bundestag postal services committee, should head the new body and rejected Mr Klaus-Dieter Scheurle, a senior post ministry official and the government nominee.

Mr Wolfgang Bötsch, post and telecommunications minister, said the government would decide "as soon as possible" whether to follow the council's recommendation. But he stressed that the council, which is made up of state communications ministers and members of the Bundestag, did not have the final say. If the government decides against Mr Börnsen, the council can debate the matter again but the government will make the final decision.

The future regulatory body is intended to be a powerful and independent institution charged with ensuring fair competition and a nationwide supply of telecommunications services after the German market is liberalised on January 1 next year. *Peter Norman, Bonn*

EIB backs Polish motorway

The European Investment Bank (EIB) expects to finance up to 30 per cent of Poland's planned first big toll motorway linking Berlin and Warsaw at a cost of Ecu3.2bn ($2.5bn), according to Mr Wolfgang Roth, the deputy head of the EIB.

Mr Roth said the planned investment in the A2 motorway was part of an EIB lending programme which could run to Ecu2.8bn over the next three years and will focus on road and rail transport projects. It will also support western European investment in Poland's steel, cement and motor vehicle production sectors.

The EIB, which is planning to launch a zloty bond issue later this year, has committed loans worth Ecu1.4bn to Poland to date. *Christopher Bobinski, Warsaw*

Czech growth nears zero

The Czech Republic is continuing to win its battle against inflation but at the expense of a further slowdown in industrial activity. Figures published yesterday by the Czech Statistics Office provided further evidence that the economy might post zero growth for the first quarter of this year.

The annual inflation rate fell to 6.7 per cent in April, its lowest level since the start of the country's transition to the market economy. But industrial production fell a further 2.5 per cent in March, bringing the slowdown in activity to 4.2 per cent in the first quarter, according to the statistics.

Official growth predictions for the year have already been revised downwards to about 2.5 per cent, half the original estimate. Czech industry is spending heavily on imports of investment technology but is struggling to turn this modernisation into productivity gains and growing exports, which account for about half the country's GDP.

The latest batch of figures made it unlikely the Czech National Bank would cut interest rates until at least the third quarter of the year, analysts said yesterday. The government maintains the independent bank's tight monetary policy, which is the main reason for the slowdown in the economy. *Vincent Boland, Prague*

Libyan court plea fails

A Maltese court yesterday rejected Libya's request for the extradition of Mr Najib Harari, a Libyan with UN refugee status, accused by Tripoli of drug trafficking.

The court dismissed the Libyan evidence as unsubstantiated.

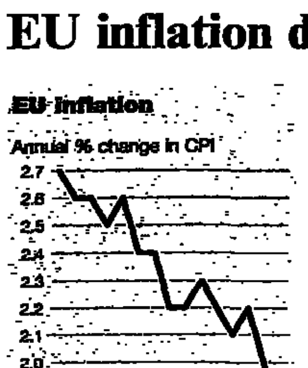
Mr Harari, a writer and a scientist with knowledge of Libya's chemical factories, was arrested by the Maltese police last week hours before boarding a flight to Sweden. Previously he had served a seven-month jail term in Malta for entering the country with a false passport.

Last week Mr Harari told the court he was a member of a group planning to overthrow the Libyan regime and that he feared for his life. He denied having ever been involved in drug or arms trafficking.

Special troops ringed the prisons where Mr Harari was kept under tight security following reports of a plan to attack the jail. *Godfrey Grima, Valletta*

ECONOMIC WATCH

EU inflation down to 1.7%



The European Union inflation rate dropped to 1.7 per cent in March compared with 2 per cent in February, according to Eurostat, the EU's statistical office.

In March last year, the rate was 2.6 per cent.

The lowest inflation rates in March were in Finland (0.8 per cent), Sweden (1.0 per cent) and France (1.1 per cent). These three states, along with Austria, Belgium, Germany, Luxembourg, the Netherlands and Denmark, were below the EU average. The UK was just above at 1.8 per cent. Inflation was highest in Greece (5.9 per cent).

The average EU rate compares with 2.8 per cent in the US and 0.5 per cent in Switzerland. Japan's rate was stable at 0.5 per cent, although these figures are not strictly comparable with the EU's index, which was calculated according to the new European Index of Consumer Prices. This measure will be used for the decision on whether member states meet the criterion on price stability for economic and monetary union, laid out in the Maastricht Treaty. *Emma Tucker, Brussels*

■ The Belgian government's surplus rose to BFr39.4bn ($1.1bn) in April from BFr17.5bn a year earlier, the finance ministry said. *AFX, Brussels*

■ The Belgium and Luxembourg Economic Union's trade surplus with countries outside the EU rose to BFr20.8bn ($585m) in March from BFr10.0bn a year earlier, the Institute of National Accounts said. *AFX, Brussels*

Rightwing takes Milan but government and opposition both satisfied at poll

Centre-left keeps hold on Italian cities

By Robert Graham in Rome

Italy's rightwing opposition has captured the key city of Milan but failed to wrest Turin and Trieste from the ruling centre-left in the other two main contests in the second round of voting in local elections.

Elsewhere both the government and opposition parties had cause for satisfaction in the elections on Sunday, which involved some 5m voters and were the first big electoral test for the Prodi government after a year in office.

There was no sign of the opposition being able to make any real dent in support for the ruling centre-left Olive Tree alliance but the results have also reinforced the government's reliance on the leftwing Reconstructed Communism party.

Including the outright wins in the first round two weeks ago, the Olive Tree won the mayoral races in most of the big towns and cities at stake plus four of the six provincial administrations. In towns with fewer than 15,000 inhabitants the centre-left won almost twice as many municipalities as the opposition.

The Olive Tree's mayors hung on narrowly to Turin and did well in Trieste. In Trieste the victory was due to the personality of Mr Ricardo Illy, the mayor and a member of the Illy family coffee company, who fielded his own grouping at the last minute.

In Turin, the support of Reconstructed Communism, who are well rooted in the city, was a determining factor. During the first round of voting two weeks ago RC stood alone to underline its importance to the centre-right coalition.

In the Milan race Mr Aldo Fumigalli, the centre-left mayoral candidate, refused to strike a deal with RC. But even with such a formal pact it was more likely that the rightwing parties, headed by former premier Mr Silvio Berlusconi's Forza Italia, would win. The bulk of disillusioned voters who brought the populist Northern League to Milan's city hall in 1993 switched to the rightwing candidate, Mr Gabriele Albertini, on Sunday, helping him reach almost 54 per cent of the vote.

Despite the sharp fall in support for the League seen in the first round in the bigger urban centres, it had cause for satisfaction. Its mayor at Pordenone was returned with 53 per cent of the vote and it won Lecco. On both occasions the League candidates picked up support in the second round from the rightwing parties.

With no real victors or vanquished, the political climate should become calmer. This should contribute to a less confrontational atmosphere in the parliamentary commission discussing constitutional reform, which has only six weeks left to formalise its proposals. Yesterday President Oscar Luigi Scalfaro called on all the parties to work more constructively on them.

But the strong showing by Reconstructed Communism in the first round and their vital votes on Sunday has highlighted the government's dilemma. Mr Romano Prodi, prime minister, can survive only with the backing of RC. Mr Fausto Bertinotti, RC leader, has consistently refused to endorse the Olive Tree's policy platform and, if anything, has come out of the local elections with his bargaining power enhanced. This could prove awkward in coming days as Mr Prodi begins discussions on how to reform pensions.

Tenth arrest after occupation of Venice bell tower

Italian police have arrested a 10th person believed to be behind the independence movement which briefly occupied the bell tower in St Mark's Square, Venice, last Friday, *Robert Graham reports.*

Nine other people are under investigation for various illegal activities including the preparation of pirate broadcasts on radio and local television frequencies in the Veneto region.

At the same time, police yesterday revealed they had discovered a home-made armoured robot with a sophisticated guidance system in the Padua region on Sunday.

In the bizarre occupation of the St Mark's bell tower, the self-styled Venice independence movement employed a home-made armoured personnel carrier yesterday revealed to have a flame-throwing device.

Investigations have linked the Venice separatists with elements in the populist Northern League of Mr Umberto Bossi. Mr Bossi has claimed the whole affair was a move by the intelligence services to discredit the secessionist demands of the League.

But other politicians have blamed Mr Bossi's inflammatory rhetoric for fomenting an atmosphere favourable to these incidents.

Presidential poll called for Croatia

By Anthony Robinson and Guy Dinmore

The Croatian government, boosted by an unexpectly strong showing for the ruling Croatian Democratic Union (HDZ) at local elections in April, has called presidential elections on June 15.

Mr Franjo Tudjman, 74, the HDZ leader elected for a five-year term as the country's first president in August 1992, is expected to be re-elected.

He was treated for stomach cancer in a US hospital last year and is considered unlikely to complete the term. But his medical team said yesterday he was in good health and he was photographed recently playing tennis with ministers looking on.

Mr Tudjman, a former communist general turned Croatian nationalist, led the country to independence against the Serb-led Yugoslav army in 1991. He is widely respected as the father of the nation but is also criticised for the country's patchy human rights record.

He built up an army with covert US assistance which in 1995 re-occupied much of the territory taken by ethnic Serb separatists in the early stages of the war.

The decision to hold early elections means that voting will take place before eastern Slavonia, the last of the lands occupied by ethnic Serbs since 1991 and at present under UN administration, is returned to full Croatian control.

Mr Tudjman wants a mandate to complete the process and continue macro-economic policies which have restored financial stability and attracted growing foreign investment and international loans.

Mr Vlado Gotovac, leader of the Social Liberal party, is the only rival candidate to date. But a fractured opposition is expected to disperse its votes in the first round.

A 50 per cent vote is needed to win in the first round. Mr Tudjman won 56 per cent in 1992 but could find it more difficult to win an absolute majority this time.

A Zagreb woman cycles past a poster of President Franjo Tudjman, the only candidate so far for next month's election *Reuter*

Moscow signs peace treaty with Chechnya

By John Thornhill in Moscow

The presidents of Russia and Chechnya yesterday vowed to end 400 years of enmity between their peoples in signing a peace agreement in Moscow and promising joint action to rebuild the devastated north Caucasian region.

The treaty formally ended the most recent 21-month conflict between the two sides, which erupted when Russian troops invaded Chechnya in December 1994, and brought 80,000 deaths.

But the contents of the treaty were not disclosed and the most vexed issue – Chechnya's constitutional status – was not mentioned, though the agreement appeared to cede the region de facto independence. A military ceasefire agreed between the combatants last autumn included a provision to shelve the constitutional issue for five years.

Mr Boris Yeltsin, Russia's president, said: "In this treaty there is only one point. A peace treaty has been signed. This is its chief significance".

Adding that the two sides agreed never to use force or the threat of force to settle disagreements, Mr Yeltsin said: "We have signed a peace deal of historic dimensions putting a full stop to 400 years of history".

Mr Aslan Maskhadov, the Chechen military commander who crushed Russia's army and was elected president of the region in January, held talks with Mr Yeltsin in the Kremlin yesterday before emerging to declare they had ensured "security and stability" for both their nations.

Mr Maskhadov also condemned the terrorists who set off two bombs in southern Russian towns in recent weeks and seized several Russian journalists as hostages. He said such attempts to derail the peace process would not succeed.

"By signing this document we have shown to all the world that the peace process is a reality. Furthermore, the Chechen powers and the Chechen president have shown to all the world their authority in the republic.

"There will not be a place for terrorists and hostage-takers on our land."

But despite the grand pronouncements in Moscow, the immediate economic future of Chechnya looks bleak. Some former Chechen military commanders are openly disputing Mr Maskhadov's writ. The region also needs huge sums of money to rebuild its devastated infrastructure, which Russia is scarcely in a position to provide even if it can muster the political will.

Mr Victor Chernomyrdin, Russia's prime minister, yesterday held talks with Mr Maskhadov about how to provide economic assistance. Russia's central bank also agreed to open one correspondent account with the national bank of Chechnya, which now runs monetary policy in the region.

US welcomes Cyprus military flight moratorium

By Bruce Clark in Washington

US and Nato officials have warmly welcomed an apparent easing in the level of tension between the armed forces of Greece and Turkey, highlighted by an agreement to avoid military flights over Cyprus.

Mr Nicholas Burns, the State Department spokesman, hailed as a "significant step forward" a US-brokered understanding that Turkey would refrain from military flights over Cyprus so long as the Cypriot government held back from inviting Greek aircraft to fly over the island.

The agreement reflects the emergence of a "much more positive atmosphere" in Greek-Turkish relations over the last few weeks, said one US official.

Since last year, when Washington narrowly succeeded in avoiding a Greek-Turkish clash over an islet in the Aegean, the US and Nato headquarters have been urging both governments to take steps to reduce the risk of accidental war.

Only recently has there been any sign of this effort bearing fruit, according to western diplomats. A "hot line" linking the defence chiefs of both countries, passing through Nato headquarters, has been functioning for about a month, and Mr Javier Solana, the Nato secretary-general, has started hosting twice-monthly meetings between the Greek and Turkish ambassadors.

These meetings will explore the possibility of the two countries placing observers on each other's ships and exchanging more flight information. Nato officials are confident that Athens and Ankara will again refrain from naval exercises in the Aegean during July and August, the height of the tourist season. The US and other Nato governments would like to see a longer-term moratorium.

Despite the recent signs of progress, Athens and Ankara remain at odds over Nato's future command structure – which could spoil the atmosphere at the Madrid summit in July when the alliance hopes to announce internal reforms and eastwards expansion.

Greece is resisting a Turkish proposal that the number of alliance commands in the region be reduced to three as this would leave no room for a significant Nato facility under Greek control.

While no formal linkage has been announced, one source of US leverage over the region lies in the fact that both Athens and Ankara have announced extensive arms procurement programmes that depend on US co-operation.

Poles leaping toward privatisation

One of central Europe's most innovative privatisation programmes took a big step forward yesterday when Poles started to take up shares in 15 national investment funds due to be listed on the Warsaw Stock Exchange next month.

But the investment funds – which control about 34 enterprises each and account for around 6 per cent of gross domestic product – fear the share take-up will lead to a spate of hostile takeovers which could strip them of assets and thwart the much-needed restructuring of Polish industry.

The fund managers are calling on the treasury to use the 15 per cent stake in each fund it is holding as their remuneration, as well as those shares it is holding in deposit which have yet to be claimed by voucher holders, to block attempts to sack them.

The privatisation plan was conceived in 1991 but implemented in 1995 when fund management companies – which are owned by local as well as foreign banks such as BZW, Kleinwort Benson and Creditanstalt – were brought in to restructure enterprises with a book value of around $2bn. The managers are paid on an annual basis and will also be earning 15 per cent of the stock in their funds over the 10 years they stay in existence.

Under the programme 25.9m Poles have taken up the vouchers entitling them to a share in each of the 15 funds. These vouchers, which are valid till the end of 1998, can now be exchanged for shares once they have been registered with stock brokers. So far 13.4m have already been registered. These are the ones which can immediately be swapped for equity and used to call snap meetings of shareholders.

Those shareholders who have bought enough stock will in theory be able to dominate the first shareholders' meetings and to take the funds over themselves. As a result, the managers are now looking to the treasury to act as a referee and block attempts to hijack the funds before the majority of the shareholders have taken possession of their stock.

The fears of hostile raids stem from the fact that many of the already registered shares have been sold by individuals to big investors. Among concerns thought to have significant fund holdings are the listed Environment Protection Bank, Raiffeisen, the Austrian bank which is managing Progress – one of the 15 funds – and Bank IG, which owns the Bank Gdanski, another original participant in the scheme.

The fears are most acute among those funds which have already sold assets. One is Fortuna, which is run by Yamaichi of Japan and Regent Pacific, the Hong Kong-based fund manager, and has $40m for further investments. Progress is another cash-rich fund.

Christopher Bobinski

Polish domestic investors will be favoured in the sale of Bank Handlowy (BH), Poland's biggest and oldest bank, in an attempt to reinvigorate the country's retail market, *Christopher Bobinski writes.*

The sale of the $1.5bn bank, which opens on May 26, will include an attempt to place as much stock as possible with local investors, many of whom deserted the market after it crashed in 1994.

Retail investors are to be given a 5 per cent discount on the share price, to be unveiled on June 17. They will also be given priority when shares are allocated four days later. Those who keep their stock for a year will be able to buy one new share for every 10 old ones, at half the market price.

The privatisation will also bring in foreign investors, who are being offered a 43 per cent stake if they keep their investments for three years.

In addition, the offer includes a provision for foreign institutions to make a short-term investment. They are to be offered stock through Global Depositary Receipts, with Schroders and JP Morgan acting as the joint lead managers.

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NEWS: EUROPE

Emu could hit Bundesbank profit

Germany could lose out on $10bn over five years, writes Wolfgang Münchau

Preparing for Emu

Germany could lose more than $10bn in central banking profits during five years as a direct result of European economic and monetary union (Emu), according to a report out today.*

The Netherlands, Spain, Sweden and Austria would also lose out, while the UK and France would be the biggest net gainers.

The reason behind Germany's projected loss is the discrepancy between the large amount of D-Mark banknotes currently in circulation – inside Germany and especially in eastern Europe – and Germany's shareholding in the future European Central Bank (ECB).

The D-Mark accounts for an estimated 42 per cent of the EU monetary base – banknotes in circulation plus money held by central banks on behalf of commercial banks – while Germany's share in the European Monetary Institute (Emi), the forerunner of the ECB, is 22 per cent.

The profits arise from what is known in central banking parlance as "seignorage". Each banknote issued by a central bank is backed by an interest-bearing security. The more banknotes a central bank issues, the greater its profits, or seignorage, from those securities.

One of the main reasons for the glut of D-Mark notes, relative to Germany's population size and its gross domestic product, is the strong use of D-Mark notes as a hard currency in eastern Europe and especially in Russia. Given Germany's history of low inflation, Germans also tend to use their currency as a store of value to a greater extent than is common elsewhere in the EU.

Under the Maastricht Treaty, the securities which give rise to seignorage will be pooled. As the balance sheets of the various national central banks are incompatible, the Emi has adopted a flat-rate method. Profits will be calculated on a monthly basis using a low interest rate and will then be shared out in proportion to each country's shareholding in the ECB.

The precise shareholdings are not yet known and will depend on the number of participants in Emu. The smaller the number, the larger each nation's shareholding. But Germany's shareholding will always be smaller than its respective share of the combined monetary base.

According to projections by Central Banking, a quarterly journal, Germany could lose $10.44bn over five years. This would reduce to a loss of $6.77bn if the redistribution of assets was phased in during a five-year period, under a specific formula outlined in the Maastricht Treaty. However, the ultimate decision about whether to allow phasing-in is subject to qualified majority voting in the ECB.

The issue could give rise to conflict, as it gives France an advantage over Germany. The two countries already disagree on the extent to which the ECB can directly engage in foreign exchange and money market operations and the nomination of the ECB's future president.

The UK, if it joined Emu, would become the single largest beneficiary according to the calculations, with a projected five-year gain of $7.95bn, or $5.15bn if transitional arrangements were applied.

Mr Charles Goodhart, Norman Sosnow professor of banking and finance at the London School of Economics, said "of course, Germany is going to be a big loser. The UK, if it joined would be a big gainer. But all this does not amount to much in economic terms. This is accounting not economics."

He said that Germany's monetary base is bloated further by the black economy. High denominations, such as DM500 and DM1,000 notes, make the D-Mark the currency of choice in black-market transactions in Germany itself and especially in eastern Europe.

Experts believe the transition to the euro could deal a lethal blow to the black economy, but this would depend on the mechanism by which national currencies are exchanged into euros.

Mr Graham Bishop, European financial affairs advisor at Salomon Brothers, the US investment bank, said that "if they don't hand their money in, as one might expect, then Emu could constitute a 100 per cent wealth tax" on the black economy. Under the current arrangements, national currencies lose their legal tender status in mid-2002.

Mr Goodhart points out that this, far from being popular, could severely add to the public disaffection for the single currency, given the size of the black economy in some countries.

Dispute over ESCB profits, Central Banking, volume 7, no. 4. Central Banking Publications, 27 Chancery Lane, London WC2A 1PA. Fax: 0171-404 6436.

The transition to the euro could deal a lethal blow to the black economy, as the D-Mark is the currency of choice in black-market transactions in Germany and especially in eastern Europe

Share out of the European Central Bank profits

12 members of the ECB	Share of European monetary base (%)	Share holding of ECB of 12 (%)	Annual loss or gain (US$bn)	Cumulative loss or gain after 5 years with no relief (US$bn)
UK	8.48	19.08	1.59	7.95
France	11.73	21.13	1.41	7.05
Portugal	1.86	2.48	0.1	0.48
Belgium	3.16	3.48	0.05	0.24
Finland	1.79	2.05	0.04	0.19
Luxembourg	0.04	0.19	0.02	0.11
Ireland	0.39	0.38	0	0
Sweden	4.63	3.61	-0.15	-0.77
Netherlands	6.55	5.28	-0.19	-0.95
Austria	4.51	2.86	-0.25	-1.23
Spain	14.51	11	-0.53	-2.63
Germany	41.85	28.03	-2.09	-10.44

Source: BIS, International Financial Statistics

Company treasurers unprepared for Emu

By George Graham, Banking Correspondent

Many corporate treasurers are still not preparing for the impact of European monetary union on their financial arrangements, even in countries which appear likely to be among the first wave of Emu members.

Research by Greenwich Associates, the US-based banking industry consultancy, found only 64 per cent of corporate treasury departments in continental Europe said they were actively preparing for Emu.

In the UK, however, just 41 per cent were actively preparing.

Mr Robert Statius-Muller of Greenwich said the survey showed companies had not woken up to the possible effects of Emu on their funding arrangements. "Companies both in the UK and on the continent are woefully under-preparing," he said.

Moreover, most of the companies making preparations are relying entirely on internal taskforces – which in some cases may be a single person. That may be good enough for large companies with resources to assess the impact of Emu on the capital markets in which they borrow, but for most companies it suggests they have not got far in their thinking.

The Greenwich survey shows Germany to be the most advanced, with 84 per cent of corporate treasurers making preparations. A significant proportion are also making use of outside consultants or banking advisers to help them.

But only 52 per cent of French companies said they were preparing for Emu, and 92 per cent of those were relying entirely on internal taskforces.

Most treasurers are still concentrating on technical changes such as changing their accounting systems, rather than strategic issues of how the single currency will affect the management of their mixture of debt and equity finance.

Only a handful of corporate treasurers expected to change their banking behaviour much after the completion of Emu. In the UK, 4 per cent thought they would make greater use of foreign banks for funding, and 13 per cent for cash management.

Even though monetary union should create a much larger and more liquid capital market in euros, only 6 per cent of UK treasurers and 13 per cent of continental treasurers expected to increase their use of capital markets for debt finance.

The lack of preparation does not reflect any expectation that Emu will not go ahead. More than 85 per cent of continental treasurers believe the single currency will be launched on schedule.

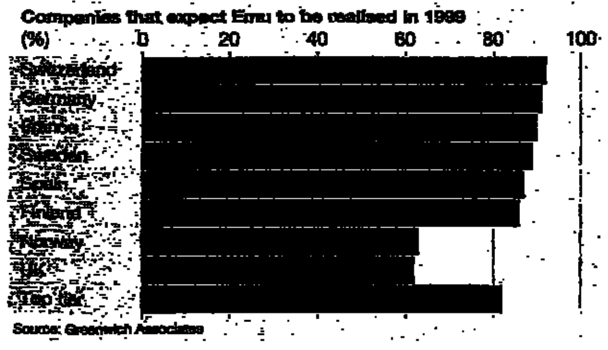
Only the UK and Norway were sceptical, and even there, 62 per cent believed there would be no delay. More than half UK corporate treasurers believed their country would join Emu by 2002.

Emu: are you ready?

Corporate treasurers' preparations for Emu

	How many are preparing for Emu (%)	Of those, how many using internal taskforce only (%)	How many expect their own country to join in 1999 (%)
France	52	92	74
Germany	84	68	81
Nordics	59	24	41
Spain	67	80	67
Switzerland	43	100	
UK	41	72	8

Companies that expect Emu to be realised in 1999



Source: Greenwich Associates

Juppé promises welfare changes as poll nears

By David Buchan in Paris

The French prime minister, Mr Alain Juppé, yesterday sought to consolidate his opinion poll lead before the parliamentary elections by promising to cut welfare charges on French industry and raise family allowances.

Mr Juppé firmed up his pledge to pay family allowances for children until the age of 19, instead of 18 at present and said he would extend an existing scheme to cut welfare charges on textile firms employing large numbers of low-paid workers to other sectors, including retailing, restaurants, hotels, construction, food processing and the wood industry.

He claimed that the scheme had "saved 35,000 [textile] jobs in the past year", and could do the same for other sectors. It would be funded by cutting some direct job subsidies, he said.

However, France is still having to negotiate the revisions to its textile scheme with the European Commission. Brussels has objected that welfare charge reductions or rebates confined to particular industries sectors could pose unfair competition to their EU competitors, and should be made general, not sectoral. Mr Juppé was yesterday dismissive of this "bureaucratic" EU approach.

But Mr Juppé is not the only politician in this campaign to find his electoral pledges may be constrained by EU rules.

The pledge by Mr Lionel Jospin, the Socialist leader, to cut French value-added tax further on some basic items would encounter the same problem, since reductions below the standard EU minimum of 15 per cent require unanimous approval of other EU states.

President Jacques Chirac himself has found that his proposal to cut VAT on CD-Roms, in the interest of computerising French schools faster, has been blocked in Brussels.

Faced with a slight downturn in the polls, France's Socialists yesterday fought back by insisting on the "realism" of their programme to "change" the economy by increasing demand and jobs.

Mr Jospin told his supporters in Reims yesterday the French people – who vote in the first round on May 25 – "have not made their decision – everything remains open." He added: "We must show in what ways our proposals both carry a chance of change and are realistic."

WEU merger plans on agenda

By David Buchan in Paris

Britain's new Labour government today gets its first chance to air its views on European defence at a ministerial meeting of the 10-nation Western European Union (WEU), but these are likely to disappoint French ambitions to merge the organisation with the European Union.

France, the WEU's current president, has long wanted to merge it into the EU to make it the Union's "military arm", and is pushing for this in the intergovernmental conference (IGC) negotiations in Brussels. However, Britain's new foreign secretary, Mr Robin Cook, and new defence minister, Mr George Robertson, are expected to tell their WEU colleagues that Labour is no different from its Tory predecessor in preferring Nato to the EU as the main focus of European defence efforts.

The main business of today's meeting is likely to be approval of the defence organisation's new working arrangement with Turkey and better use of military satellite information, as well as discussion by some WEU members of their joint policing operation in Albania.

The French presidency of the WEU has negotiated an end to the impasse created by Turkey and Greece over co-ordination with Nato. Paris has apparently persuaded Greece that Turkey, an associate WEU member and a full Nato member, should have a say in any WEU operation using Nato military assets.

France has also persuaded its WEU partners to make more use of the WEU centre in Spain that processes images from the Helios 1 military satellite, built by France, Spain and Italy. The image processing centre will now provide the WEU council with an automatic stream of pictures relating to problems such as illegal nuclear proliferation or chemical weapon development, instead of waiting to be asked.

BIS opens archives to counter Nazi gold claims

By William Hall in Basle

The Bank for International Settlements, one of the world's most secretive financial institutions, has agreed to open all of its historical archives in a bid to clear the debate about its wartime record in buying gold from Nazi Germany.

The BIS, which is owned by the world's leading central banks, continued operating throughout the second world war and in common with the Swiss National Bank has been accused of helping the German war effort by buying looted gold.

The BIS yesterday released a note on its wartime gold operations with the German Reichsbank. The figures, which have been audited by Coopers & Lybrand, the London chartered accountants, confirm earlier estimates given to Senator Alfonse d'Amato's US Senate banking committee.

However, the report is largely concerned with detailing actual transactions and makes no effort to explain the motivations of the top BIS officials during the second world war.

The BIS confirmed that it had bought 13.5 tonnes of gold from the German Reichsbank of which 3.7 tonnes was later discovered to be looted Nazi gold. This was later returned and the Allies waived all claims against the BIS for the return of looted gold.

Mr Thomas McKittrick, the wartime BIS president, was a US citizen, Mr Roger Auboin, his deputy, was French, and Mr Paul Hechler, head of the banking department, was German.

In the past, BIS officials have denied that the BIS helped the Nazis. However, Mr Andrew Crockett, the BIS's current general manager, refused to comment yesterday on the BIS's wartime behaviour. He said that it was the duty of the BIS to make all the facts available as quickly as possible. "I would prefer for others to judge whether the behaviour of the BIS was appropriate," said Mr Crockett.

"Our responsibility is to make sure that those who are interested have full access to the archives," he said.

All documents older than 30 years will be made available from early 1998 and as a preliminary measure major documents relating to the BIS's wartime record will be made available to historians and researchers from July.

If the rainforests are being destroyed at the rate of thousands of trees a minute, how can planting just a handful of seedlings make a difference?

A WWF – World Wide Fund For Nature tree nursery addresses some of the problems facing people that can force them to chop down trees.

Where hunger or poverty is the underlying cause of deforestation, we can provide fruit trees.

The villagers of Mugunga, Zaire, for example, eat papaya and mangoes from WWF trees. And rather than having to sell timber to buy other food, they can now sell the surplus fruit their nursery produces.

Where trees are chopped down for firewood, WWF and the local people can protect them by planting fast-growing varieties to form a renewable fuel source.

This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The *Markhamia lotea* trees planted by WWF and local villages can be harvested within five or six years of planting.

Where trees are chopped down to be used for construction, as in Panama and Pakistan, we supply other species that are fast-growing and easily replaced.

These tree nurseries are just part of the work we do with the people of the tropical forests.

WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods. New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.

WWF World Wide Fund For Nature (formerly World Wildlife Fund)

International Secretariat, 1196 Gland, Switzerland.

FOR THE SAKE OF THE CHILDREN
WE GAVE THEM A NURSERY.

Rift threatens National party's future

Divisions in S African opposition may condemn it to a provincial role, **Roger Matthews** reports

F.W. de Klerk (left) and Roelf Meyer: relations at 'an all-time low'

The bid to make the National party, headed by the former president, Mr F.W. de Klerk, *the main focus for a fundamental* realignment of South African politics appears to have collapsed less than 15 months after it was launched.

Mr Roelf Meyer, who resigned as secretary general in February to concentrate on charting a new course for the party, is expected to quit altogether later this week. This follows Mr de Klerk's decision to disband Mr Meyer's team, which had been exploring longer-term options for the party, including disbandment.

"We, as the National party, had to take the initiative to restructure the political map of South Africa," Mr Meyer said yesterday. "It was not something we could do on our own, or overnight. It was a process, and it was not obvious where it would lead.

"There were several options. We could enter into an alliance with other parties, we could strike electoral pacts or we could disband and form an entirely new party. Nothing was decided. But the last option was obviously contentious, and unfortunately some of my colleagues got cold feet."

Mr Meyer, who played a significant role in the negotiations leading to the 1994 elections and the National party's removal from power after more than four decades, represents the wing of the organisation which believes it is essential to attract black voters.

"There are two approaches within the National party," he said. "Those who wish merely to consolidate the present white and 'coloured' support, and those who wish to reach out to the blacks. It appears as if those wanting consolidation have won.

"But I have no doubt there must be a new movement in South African politics. No party with a white leader can really penetrate the black majority," he said

Mr Meyer's defeat is a victory for Mr Hernus Kriel, the National party leader in the Western Cape, the only one of the nine provinces where local government is controlled by the Nationalists. Mr Kriel is positioning himself to replace Mr de Klerk should the former president step down, or become vulnerable to a challenge.

Although it was Mr de Klerk who last year *announced the party was* embarking on a "new trek to an unknown political destination" he has quickly bowed to pressure from the more conservative wing. These members, including most provincial leaders, believe the party must first maintain its appeal to white voters, and should concentrate on building power in the Western Cape.

Mr de Klerk denied a serious split and said he hoped *Mr Meyer* would remain. But Mr Meyer said yesterday he had strongly opposed disbanding the task team, and admitted relations with Mr de Klerk were at any all-time low. "He took the wrong decision and it is quite clear we have strongly opposed ideas of how we should go forward," he said.

Mr Meyer, who also played a central role in negotiating the national constitution approved last year, is consulting the party in Gauteng province, of which he is the leader.

"My decision will be based on my commitment to genuine non-racial politics, and creating an alternative to the African National Congress," he said. "Things look very different from Gauteng [which includes Johannesburg] where it is critical to appeal to black voters, than they do in the Cape."

With the next general election less than two years away, the ANC is likely to be the prime beneficiary of the National party split, and will be looking to increase the 62 per cent of the vote it won in 1994.

Mr Meyer's hitherto fruitless consultations with other political leaders, including Mr Tony Leon of the small Democratic party, and Mr Bantu Holomisa, the former Transkei military chief expelled last year from the ANC, are expected to stepped up if he leaves the Nationalists.

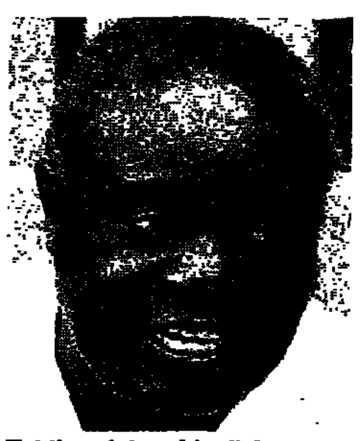
However, once outside the party, Mr Meyer will lose his parliamentary seat and have the daunting task of raising funds to create a viable party.

He may be joined by a small number of other senior Nationalists, with most attention concentrated on black politicians such as Mr David Malatsi, an assistant general secretary, and the first black to head the party at regional level.

Extensive desertions by blacks could condemn the Nationalists, who won 20 per cent of the vote in 1994, to a narrow provincial role with no ambitions beyond clinging to power in the Western Cape.

Call for three-day strike as Mbeki gives warning on tomorrow's Mobutu-Kabila talks

'Last chance' to avert Kinshasa showdown



Kabila: claims his fighters are only 30 miles from Kinshasa

By Michela Wrong in Kinshasa and Agencies

Tomorrow's planned meeting between Zaire's President Mobutu Sese Seko and the rebel leader, Mr Laurent Kabila, could be the last chance to avert a bloody showdown over control of Kinshasa, Mr *Thabo Mbeki, South Africa's deputy* president, said yesterday.

The warning came as unsigned leaflets were distributed in the Zaire capital calling for a three-day strike from tomorrow until Friday, in protest against President Mobutu's refusal to hand over to the advancing rebel forces.

Mr Kabila now claims his fighters are only 30 miles from the city.

The leaflet urged civilians to create a "dead city" by staying at home; a tactic which has been successfully used by the opposition. Soldiers were told to remain in their camps "in order to avoid an eventual bloodbath".

Speaking in Cape Town, Mr Mbeki said he remained hopeful that Mr Mobutu and Mr Kabila *would meet for the second time* aboard a South African navy vessel tomorrow, adding: "It may very well be the last chance to find a negotiated solution".

Rebel spokesmen in Lubumbashi yesterday insisted that tomorrow's summit would be the last opportunity for Mr Mobutu to hand over to Mr Kabila.

South African and US negotiators have suggested a face-saving alternative for the president. This entails him stepping down in favour of Archbishop Laurent Monsengwo, elected to his old post as speaker of Zaire's transitional parliament by Mobutu supporters.

But the archbishop, who arrived in Kinshasa at the weekend, has not yet said whether he will take *the post, while rebel spokesmen* have rejected the proposal.

Mr Mbeki said he would probably travel to Zaire today to hold separate meetings with Mr Kabila in his Lubumbashi headquarters and with Mr Mobutu in Kinshasa.

He identified the main issues as the composition of a transitional authority, a timetable for setting it up and the timing of Mr Mobutu's resignation.

"We believe it's important that the basis should be laid for a resolution of these matters before we get to the meeting on Wednesday," he said.

"We are hopeful that it would be possible because if this agreement is not reached, it opens a way to a military solution being the only *thing on the cards*".

Mr Mbeki said that in the next 48 hours South African mediators would hold intensive discussions with Mr Kabila, Mr Mobutu, Mr Mohamed Sahnoun, the United Nations envoy, and various countries with an interest in ending the conflict in Zaire.

Mr Sahnoun had arrived in South Africa for talks on the issue, he added.

INTERNATIONAL NEWS DIGEST

Tunis banks in forex move

Tunisia, in a new step aiming at integration in international financial markets, yesterday allowed domestic banks to start exchanging hard currencies with foreign financial institutions and to enter the forward forex market, the Central Bank of Tunisia (BCT) said.

In a circular sent to banks yesterday, the BCT said resident banks "were authorised to trade foreign currencies between them, with their foreign correspondents and with non-resident banks in Tunisia".

It says the decision for the spot cross-trade of foreign currencies was with immediate effect.

"The new BCT's measures are excellent and extraordinary news. They were taken after full consultations with banks, and the circulars show that BCT was very receptive to the banks' suggestions," said Mr Hocine Mouelhi, head of the international department of Amen Bank.

The bank's measures were also welcomed by offshore banks established in Tunisia. "This is a new step which is going to stimulate the market and make it more diversified," said Mr Ramz Hamzaoui, chief dealer of the offshore/onshore Tunis-based Citibank. *Reuter, Tunis*

Cairo in state sell-off

Egypt will sell shares worth E£1.5bn ($442m) in three state conglomerates, Mr Safwat el-Sherif, the information minister, was reported to have said in Egyptian newspapers yesterday.

He said 20 per cent of each of Egypt Aluminium Products/Alumisr, Sugar and Integrated Industries (SII) and Egyptian Iron and Steel would be sold through the stock exchange. He gave no dates or prices. The total value of each company's tranche shows shares will be priced at about E£88, E£75 and E£6.4 respectively, the newspapers said. The government will also offer the whole equity of Upper Egypt Contracting, the building group, at E£35 per share. *Reuter, Cairo*

Egypt Survey, Separate Section

Nigeria hosts air conference

More than 250 delegates from 42 countries yesterday attended an international air safety meeting in Abuja, the Nigerian capital.

Mr Assad Kotaite, president of the International Civil Aviation Organisation (ICAO), a United Nations agency, warned delegates – mostly from Africa but also from Britain, the US and elsewhere – of "the critical deficiencies in the air navigation field", which "seriously affect the safety of flights in the African airspace".

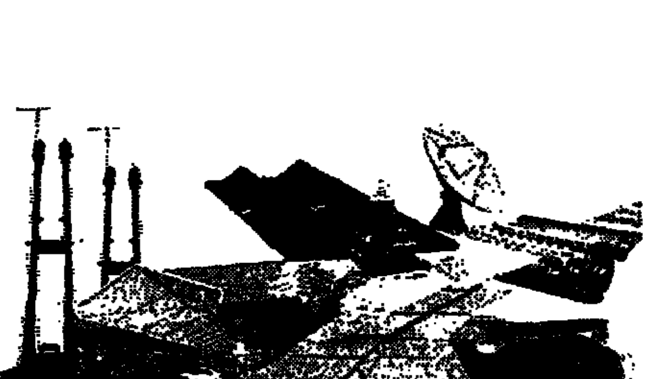
Air safety has been an increasingly prominent issue across the continent in recent months, particularly in Nigeria, which suffered two big and several minor air crashes last year.

ICAO forecasts that traffic volumes in Africa will grow by 4 per cent a year over the next decade, despite many countries' obsolete and poorly maintained navigational systems and safety infrastructure.

It is the first time the organisation has held a meeting of this kind since 1988, and why it picked Abuja remains a matter of speculation. Government officials insist the conference is the latest indication of Nigeria's return to the international stage. *Antony Goldman, Abuja*

RWE posting another profit gain

Report on the business development between July 1996 and March 1997



The favourable development of Group net profits continued in the third quarter, lifting the net income (after tax and discounting minority *shares) by 6.8% to DM 878 million in the past* nine months of the 1996/97 business year. This development is set to continue. Higher profits were produced especially by the Energy Division as well as Mechanical and Plant Engineering with its printing press subdivision. The up-front *costs incurred to build up telecommunications* have risen strongly and are absorbed in the net income. They were partly cushioned by using provisions created for this purpose and through tax benefits from distribute/recapture measures with some subsidiaries.

Sales rise on a high level

The Group's external net sales grew by 7.8% to DM 52.9 billion; discounting first-time consolidations, sales were up 5.0%. The increase was particularly strong in the first half, owing, among other things, to high account settlements in construction and plant engineering.

Capital expenditure rising strongly in 1996/97 through telecommunications

In the first nine months of the current business year, investments totalled DM 4.3 billion and were slightly down from the corresponding year-earlier level. Noteworthy additions to our portfolio of holdings were the acquisitions of 20% by RWE *Energie in Motor Columbus and of 79% in* Linotype-Hell by Heidelberg. The volume of capital expenditure will increase significantly for the business year as a whole as a result of our telecommunications commitment. As part of meeting our investment commitments, we will *probably pay DM 2.2 billion into the joint venture* in May. This investment will be financed from our cash-flow and the cash resources available in the Group.

132 711 employees in the Group

The Group's workforce increased slightly since the beginning of the business year although it declined by 4.5% when adjusted for the effects of first-time consolidations. The decrease is due to the continuing cost-cutting measures in all the divisions of the Group.

Essen, May 1997

The Board of Management

Group sales DM million	[illegible]	Year-earlier period	change %
Energy	[illegible]	16 466	– 1.5
Mining and Raw Materials	[illegible]	3 613	– 16.1
Petroleum and Chemicals	[illegible]	17 736	+ 13.2
thereof mineral oil tax	[illegible]	7 883	+ 0.5
Waste Management	[illegible]	1 013	+ 20.7
Mechanical and Plant Engineering	[illegible]	5 089	+ 12.7
Telecommunications	[illegible]	377	+115.4
Construction and Civil Engineering	[illegible]	4 776	+ 21.4
Others	[illegible]	33	0.0
Total	[illegible]	49 103	+ 7.8
Consolidated net income DM million			
(discounting minority interests)	[illegible]	822	+ 6.8

We shall be pleased to send you an interim report on the business development in the individual Group Divisions.

RWE Aktiengesellschaft
Opernplatz 1
45128 Essen

Phone +49 201 12–15025
Fax +49 201 12–15333

RWE Energie, Rheinbraun, RWE-DEA, RWE Entsorgung, Lahmeyer, RWE Telliance, HOCHTIEF

RWE Die Zukunftsgruppe.

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TUESDAY MAY 13 1997

NEWS DIGEST

banks
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s air conference

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Who's engineering new technologies to protect pets from

Alessandra Cazzani and her dog, Uki, near their home in Bergamo, Italy. Fleas could be an endless source of discomfort for Uki and frustration for Alessandra. No longer. Novartis developed the first monthly internal medicine that offers a preventative solution to Uki's age old problem.

NOVARTIS

The world's leading Life Sciences company.
Formed by the merger of Ciba and Sandoz.

Healthcare

Agribusiness

Nutrition

To find out more about Novartis and our new skills, visit our website at www.novartis.com

NEWS: ASIA-PACIFIC

Inder Kumar Gujral (left) and Nawaz Sharif yesterday Reuter

Gujral and Sharif seek 'clean slate'

By Amal Jayasinghe in the Maldives

India's prime minister, Mr Inder Kumar Gujral, and his Pakistan counterpart, Mr Nawaz Sharif, yesterday agreed to a "clean slate" and normalise relations. Mr Gujral said his meeting with Mr Sharif, the first between prime ministers of the two south Asian countries in four years, was a "milestone".

Talks between the two countries – which have fought three wars since independence in 1947 – were revived at the level of officials only last month after a chilly three-year lull.

The two leaders, both relatively new in office – Mr Sharif following a landslide election victory, and Mr Gujral after an internal party upheaval – met in the Maldives, in the Indian Ocean island, where they are attending a summit of the South Asian Association for Regional Co-operation.

It was at a SAARC summit in Islamabad in 1988 that the then Indian premier, Mr Rajiv Gandhi, held a much publicised meeting with Ms Benazir Bhutto, then Pakistan prime minister. That get-together also prompted similarly bold, and ultimately failed, projections of better relations.

Improvements beyond the warm words have proved elusive, however, foundering largely because of the dispute over the state of Jammu and Kashmir.

Pakistan has said that the Kashmir issue is its main preoccupation and the resolution over the dispute will "unleash the energy and potential of South Asia", which is home to a fifth of the world's population.

Yesterday, Mr Gujral and Mr Sharif, speaking in the tiny resort island of Kurumba Village, said they had decided to establish "hot lines" and release more than 400 prisoners held in Indian and Pakistani jails.

"We have agreed to release of prisoners immediately and have a clean slate," Mr Gujral said, as Mr Sharif, pointing to his Indian counterpart, said: "I like this man very much."

"I hope we will open a new era in bilateral relations with Pakistan," Mr Gujral said, while congratulating Mr Sharif for his general election win.

They also agreed to hold the next round of talks between the foreign secretaries of the two countries by the end of May or early June in Islamabad.

Meanwhile, the seven South Asian leaders from Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka opened their three-day ninth summit with a bitter self-criticism, a resolve to boost regional trade and calls to cut defence spending.

Mr Sharif said defence spending in the region should be scaled down in favour of spending to promote national wealth.

President Maumoom Abdul Gayoom of the Maldives, who is current chairman of SAARC, accepted the widely held belief that the grouping failed to improve the lives of its people.

"If there is ambivalence towards SAARC in some quarters, that stems, in my view, not from what we have done, but from what we have so far not been able to do," he said.

Sri Lanka's President Chandrika Kumaratunga said South Asia economic progress was "less than flattering" and called for more frequent meetings of SAARC leaders to build confidence.

Editorial Comment, Page 19

Bank of Japan hangs fire on rate rise

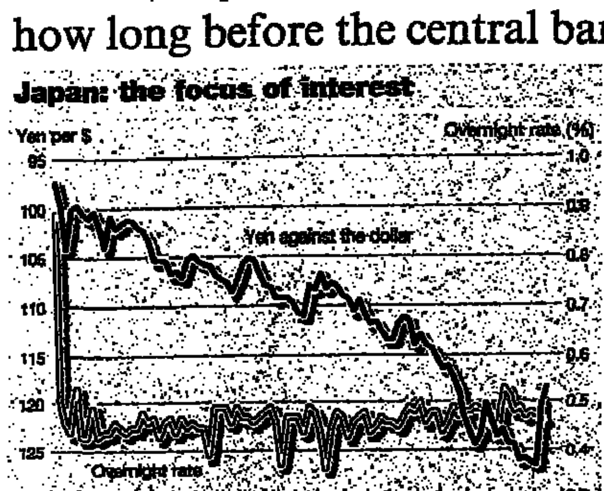
The question is: how long before the central bank acts? William Dawkins and Gillian Tett report

The question hanging over foreign exchange markets this week is when Japan will tighten monetary policy.

Speculation of an imminent rise in the official discount rate (ODR), fuelled by a series of cryptic remarks from foreign ministry officials, helped to drive the yen to Y117.5 against the dollar in Tokyo trading yesterday, a near-four-month high, before it eased back to the mid-Y118 range.

A buoyant stock market, plus recent government forecasts of a higher than expected 7.4 per cent year-on-year rise in industrial output in the three months to June, and strong consumer spending data have encouraged many to believe the economy has weathered recent tax rises better than previously thought.

This excitement has been fuelled by suspicions in some banking circles that Japanese officials have been hinting at monetary change. "There's been a change of tone recently. Officials have been planting the idea that they no longer rule out a rate rise," one western banker said.



However, a dose of sobriety was injected yesterday by Mr Hiroshi Mitsuzuka, the finance minister. He argued it was now time for foreign exchange rates to stabilise, calming the excitement earlier aroused by Mr Eisuke Sakakibara, a top ministry official and proponent of higher interest rates.

Mr Sakakibara said the Japanese currency could in theory rise to Y103 against the dollar. Mr Taku Yamasaki, policy chief of the ruling Liberal Democratic party, promptly closed ranks with the finance minister by warning that a rise in interest rates would "impact negatively" on the economy.

Behind the fuss, one trend is clear. Japan's long-term rates have risen over the past month, for a reason that has little to do with the real economy. If their past record is any guide, the Bank of Japan and finance ministry will cautiously tighten short-term rates over the next six months, but only if they see proof of a sustainable economic recovery. Recent history explains why.

The last time the central bank changed interest rates was in September 1995. It halved the ODR – the rate at which it lends to commercial banks – to the present record low of 0.5 per cent in a successful attempt to ward off a full-scale economic depression and in a less successful attempt to stop a financial crisis.

At the same time, it took the unusual step of pumping enough cash into money markets to push overnight rates, at which banks borrow from each other, below the ODR, at which they remain. The aim was to aid banks by allowing them to borrow cheaply and reinvest in high-yielding government bonds, thereby earning profits to help them write off a mountain of bad debts.

That strategy worked well for just over a year, until long-term rates and bond yields started to fall, thus reducing banks' bond profits and their willingness to purchase these long-term bonds.

By last month, the spread between overnight rates and bond yields had narrowed to 160 basis points, a poor return for the embattled smaller banks still struggling with bad debts.

Since then, claims by Mr Sakakibara and others that long-term interest rates were too low, given the economy's strength, have encouraged bond prices to fall and yields to rise, to a roughly five-month high, restoring the spread to a more comfortable 208 basis points.

"We have now reached a happy medium. Long-term rates are not so high that they will harm capital investment, but they are high enough to help smaller financial institutions," says Ms Mineko Sasaki-Smith, economist at CS First Boston Japan.

What next? It would be uncharacteristically radical for the central bank to lift the ODR before letting overnight rates first rise above official ones, especially when fiscal policy has only just been tightened with last month's increase in sales tax from 3 to 5 per cent.

And the present sudden burst of speculation about a rate rise may have removed some of the immediate currency need for a move anyway: with the yen no longer weakening sharply, there is less of an urgent motive to push rates up to defend it.

Also, any rise in short rates would hurt banks. Analysts at BZW, for example, calculate a 50 basis point increase would cut banking margins by over 10 per cent.

Instead, most private sector economists in Tokyo expect the central bank to await hard evidence that domestic demand has survived the sales tax shock before reducing liquidity enough to let overnight rates rise above 0.5 per cent.

The first occasions for the central bank to gather such proof will be at its quarterly meeting of regional branch managers and in its next Tankan quarterly survey of business conditions, both due in early July.

If the auguries from those two events are good, Mr Mike Naldrett, economist at Dresdner Kleinwort Benson in Tokyo, would expect overnight rates to rise. On past form, the central bank would then want to see whether the yen reacts by rising high enough to hurt exporters, before taking its next move.

If all seems safe on the currency front, the ODR rise could come after the next optimistic Tankan in early October, possibly earlier. But those betting on an imminent rise in Japan's official interest rates would be advised not to hold their breath.

Aziz: wants more modest target

The Asian Development Bank's annual meeting. Peter Montagnon reports

Pakistan's reserves rebuilt to $1bn

Pakistan's foreign exchange reserves have climbed back to more than $1bn, which would allow it to meet its debt repayment obligations without difficulty, Mr Sartaj Aziz, finance minister, said.

"The imminent danger of any default has gone," he said in an interview at the Asian Development Bank annual meeting in Fukuoka, Japan.

The government of Mr Nawaz Sharif, the prime minister, inherited reserves of just $500m when it was elected in February, a perilously small amount when set against debt service needs estimated by bankers at about $3bn between now and the end of the year.

Mr Aziz said the government also confronted an economic crisis that could be dealt with only by immediate and wide-ranging reforms in almost every sector of the economy. Short-term palliatives could not succeed when "the haemorrhage [in the budget] was taking place right across the board".

The International Monetary Fund had welcomed measures introduced in late March, including steep cuts in taxes and tariffs and a downsizing of government. These should form the policy basis of a new extended adjustment facility expected to be worth around $1.5bn which Pakistan is now negotiating with the Washington-based institution.

Mr Aziz said he hoped to complete negotiations with the IMF around the time of its annual meeting in Hong Kong this autumn. The main area under discussion was not the drift of the structural reforms, but rather targets to underpin macro-economic stability while these reforms took root.

The IMF had accepted that its target of a budget deficit of 4 per cent of gross domestic product in the current financial year to end-June could not be met. The outturn was more likely to be around last year's 6.3 per cent, and the question was how far the deficit should be cut in 1997-98, Mr Aziz said.

He said he would argue for a more modest reduction, perhaps to around 5 per cent, than that previously required by the IMF. "Our target should be more modest. The previous government signed three agreements and failed in all of them," he said.

Pakistan intends to proceed with privatisation of leading industries and use the proceeds to pay foreign debt, but in both telecommunications and power some regulatory refinements were needed first.

Property doubts fail to hurt Philippine banking

The Philippine banking system is sound in spite of worries over property lending which again shook the Manila stock market in recent days, said Mr Gabriel Singson, central bank governor.

The central bank was monitoring both the banking sector and the property market and knew of no instances where a significant bank or property developer was facing difficulties, he said in an interview at the Asian Development Bank annual meeting in Fukuoka, Japan. Investors have been nervous that a construction boom in Manila could lead to a Thai-style bubble.

As a precautionary measure the Philippine central bank recently tightened its rules, so that banks will have to keep lending to property developers below 20 per cent of total lending. Henceforth they may use only 60 per cent of a building's appraised value as collateral instead of 70 per cent previously, he said.

But this would involve only small adjustments, he said, since, according to the central bank, the average exposure of Philippine banks to the property market was only 11 per cent and only two banks have an exposure in excess of 20 per cent.

Mr Singson also dismissed concerns about a sharp rise in foreign currency borrowing by Philippine banks. Of the $15.6bn total foreign currency liabilities of Philippine banks, some 80 per cent were deposits by local residents, so the money did not constitute a volatile capital flow.

Moreover, banks are forbidden from converting these funds into pesos for on-lending. Unlike Thailand, the Philippines has no tradition of relying on short-term foreign currency borrowings for domestic needs. The foreign currency deposits in Philippine banks were lent mainly to exporters, and to others such as utility companies and oil companies, whose cash-flow was linked to the exchange rate.

Bad debts at Philippine banks constituted only 3 per cent of lending, a figure that was stable. Average return on equity had fallen to around 15 per cent since 1990 from around 26 per cent, because of increasing competition, most recently with the opening of the market to foreign banks. But risk-weighted capital ratios of Philippine banks were around 17 per cent, matched only in Asia by Singapore and Hong Kong.

Mr Singson added the central bank had decided to postpone its planned century bond issue because poor market conditions had pushed up the spread it would need to pay over comparable US treasury bonds. Since the issue was intended to set a benchmark, there was no point in proceeding in adverse conditions.

"We'll go ahead only if I believe we can achieve the main objective." The central bank has time to make up its mind because registration of the issue with the US authorities is valid for nine months.

World donors reluctant to feed N Korea

By James Harding in Beijing

International donors are proving reluctant to give food aid to the Stalinist regime in North Korea in spite of deteriorating conditions in the country, United Nations officials said yesterday.

The World Food Programme (WFP), the UN agency, has appealed for $95.5m to fund emergency grain supplies, but has so far raised only $38.5m as potential donors, many with their own quarrels with Pyongyang, are withholding aid.

"They are not making a judgment on humanitarian grounds but linking aid to political affairs in North Korea," said Ms Birgitta Karlgren, country director for the WFP.

A UN delegation returning from Pyongyang said yesterday that North Korea was slipping into "famine in slow motion" and warned the food crisis was "ticking away like a time bomb".

Mr Tun Myat, a senior official based at WFP headquarters in Rome, said after a tour of the country that he had seen babies and children in various stages of malnutrition and people staving off starvation by eating leaves, bark, seaweed and corn cobs.

North Korea's Communist leadership has gradually strangled the national economy and devastated agricultural output, so that when severe floods hit two years ago essential crops were destroyed, forcing people to scavenge for food.

Japan, which last year gave $5.2m to the WFP's campaign for North Korean food aid, has so far refused to donate more, because of concerns over the alleged abduction of Japanese nationals, in particular a schoolgirl possibly taken by North Korean agents 20 years ago.

The European Union has so far offered $2m, compared with $8.4m last year.

A number of European countries that have previously offered direct contributions to WFP fund-raising campaigns for North Korea, such as Britain, the Netherlands and Switzerland, have so far not given further assistance this year.

UN officials say part of the reluctance of donors can be explained by the secretive country's refusal to open up to foreign media coverage. "We have tried to tell the North Korean authorities that until the press gets in, until people see actual suffering, it is very difficult for donors to get energised," Mr Myat said.

The US has substantially increased its contribution to the WFP emergency appeal, committing $25m, two thirds of the 1997 total, compared with $6.2m last year.

Australia has also increased its assistance to $2.2m and South Korea has raised its commitment to $6m.

The $95.5m target is expected to buy only about 203,000 tonnes of food aid, well below the 1.8m tonnes food deficit forecast by the WFP.

ADB Notebook

Opportunity for banks

□ Latin America may be more popular than Asia with emerging market equity investors this year, but one man who can put a perspective on both regions is Mr William Rhodes, Citibank's vice-chairman, who led banking efforts to restructure Latin American debt in the 1980s.

Latin American countries are doing well, with leading economies expected to post growth rates of 5 to 7 per cent in 1987, but compared with Asia, their growth rates are "just so, so".

"It's only logical that after a decade of the highest growth in the world, you're going to have a consolidation in Asia," he said. Moreover that provides an opportunity to strengthen the region's banks with more capital and sound risk management practices.

□ No one knows whether Mr P. Chidambaram, India's newly reinstated finance minister, is back for the long haul. That depends on the fate of the new United Front government in New Delhi. But, assuming he does stay in government, Mr Chidambaram made himself something of a hostage to fortune by coming forward in Fukuoka with four long-term ambitions for India over the next 10 years.

Economic progress should be measured, he said, by whether India succeeds in doubling per capita output to $750, whether it can slow its population growth rate so as to raise the living standards of the very poor, whether it can become a world leader in 10 industries including petrochemicals and pharmaceuticals, and whether it can successfully reposition other industries at levels below that.

□ Thailand and Malaysia received warm appreciation in Fukuoka for their earlier decision to contribute for the first time to the ADB's development fund to aid the poorest countries. Though not on the official list, Indonesia has also emerged as a donor, with a small contribution, but Singapore remains obdurate in its refusal to participate, even though it narrowly escaped a bar on its procurement rights as a result of its position in the fund replenishment negotiations.

□ One minister conspicuous by his absence at the ADB annual meeting is Mr Winston Peters, New Zealand's treasurer, and supposedly top member of the economic team in Wellington's new coalition government. His country's delegation is led by Mr Bill Birch, the National party's finance minister and a well known figure on the international financial circuit.

Whatever that says about the domestic political role of Mr Peters and his New Zealand First party, minority party in the coalition, it looks as though Mr Birch, who was in London talking to bankers last month, remains New Zealand's frontman with financial markets.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	UNITED STATES					JAPAN					GERMANY				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	105.6	100.1	6.9	98.4	95.8	106.5	99.7	2.8	94.3	83.1	104.3	102.2	6.4	136.9	86.4
1987	108.5	105.8	6.1	104.2	98.7	113.6	103.1	2.8	106.3	90.9	108.1	102.6	6.2	149.5	86.0
1988	113.0	110.5	5.4	104.9	100.2	122.6	113.1	2.5	135.9	96.4	111.3	106.3	6.2	165.1	92.6
1989	115.5	112.5	5.2	97.9	98.9	132.6	119.7	2.2	147.0	98.3	114.1	111.4	5.6	219.5	97.0
1990	116.2	112.3	5.5	82.7	94.6	141.5	124.5	2.1	149.8	95.0	122.2	117.2	4.8	261.9	98.8
1991	113.3	110.1	6.8	61.7	99.5	144.5	128.8	2.1	144.2	91.8	127.5	118.0	4.2	297.9	96.3
1992	117.0	113.6	7.4	61.8	104.4	139.8	119.0	2.1	124.2	90.4	125.3	116.3	7.7	237.9	89.4
1993	122.2	117.5	6.8	67.7	109.5	131.7	113.6	2.5	106.8	95.6	122.1	109.2	7.9	229.0	95.2
1994	129.5	123.4	6.0	79.0	111.3	129.5	114.5	2.9	102.2	103.4	120.2	113.9	8.4	241.2	104.8
1995	133.6	127.4	5.5	79.3	111.4	128.5	118.5	3.1	105.5	108.0	120.9	115.7	8.2	268.1	100.7
1996	138.9	130.9	5.4	77.1	117.5	132.8	121.6	3.3	119.5	110.0	119.1	114.4	9.0	273.7	105.1
2nd qtr.1996	4.2	2.9	5.4	76.3	115.5	3.2	0.6	3.5	115.9	108.6	-1.9	-2.0	8.9	281.9	101.6
3rd qtr.1996	3.6	3.0	5.2	76.3	116.6	1.4	3.9	3.3	122.4	109.1	-0.2	0.0	8.9	270.5	104.1
4th qtr.1996	3.8	3.9	5.3	77.8	117.5	3.1	4.9	3.3	128.3	110.0	-2.0	1.6	9.2	270.2	105.1
1st qtr.1997		4.9	5.3				6.6					4.4			
April 1996	4.7	2.6	5.4	76.2	113.6	2.8	0.2	3.4	116.8	108.3	-1.4	-2.3	8.9	283.0	100.1
May	4.6	2.9	5.4	74.2	114.4	2.3	2.7	3.6	119.3	108.4	-4.7	-2.7	8.9	280.5	101.5
June	3.2	3.3	5.3	78.7	115.5	4.4	-1.1	3.5	111.9	108.6	0.5	-0.9	8.9	281.3	101.6
July	3.7	3.4	5.4	76.7	115.6	-1.7	6.0	3.4	122.9	108.9	-0.3	-0.9	8.9	273.8	102.6
August	3.2	2.9	5.1	74.8	116.1	2.1	1.8	3.3	121.1	108.6	0.3	1.2	8.9	269.6	103.3
September	3.9	2.8	5.2	77.4	116.6	3.6	3.8	3.3	123.5	109.1	-0.6	-0.3	9.0	270.4	104.1
October	4.6	3.3	5.2	75.3	117.1	4.3	6.5	3.4	126.7	109.3	-2.1	1.0	9.1	269.6	104.9
November	3.3	4.0	5.3	79.9	117.1	4.0	4.5	3.2	128.2	109.8	0.4	0.9	9.3	269.6	104.9
December	3.3	4.4	5.3	77.9	117.5	0.9	3.7	3.3	127.6	110.0	-4.2	3.0	9.3	270.4	105.1
January 1997	5.3	4.9	5.3	79.3	118.4	2.2	8.8	3.3	133.6	110.6	-1.3	2.0	9.6	265.4	106.2
February	4.5	4.2	5.2	82.2	120.1	1.7	3.1	3.3		111.3	-0.9	7.0		275.4	107.8
March		5.6					8.1					4.5			

	FRANCE					ITALY				UNITED KINGDOM				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1986	102.4	101.1	10.4	107.0	95.4	106.8	104.1	10.4	94.5	105.3	102.5	11.2	116.1	94.2
1987	104.5	103.1	10.5	117.2	95.2	112.1	106.8	10.9	98.2	110.8	105.6	10.3	141.1	99.3
1988	107.9	107.3	10.0	135.3	100.0	107.9	114.2	10.9	100.5	117.8	111.5	8.6	144.0	98.0
1989	109.5	111.3	9.4	160.6	99.7	118.9	118.7	10.9	98.7	120.1	114.0	7.2	124.3	96.3
1990	110.4	112.8	8.9	163.2	94.9	114.4	118.9	10.1	95.0	121.1	113.7	6.8	97.7	95.4
1991	110.2	111.4	9.4	128.2	98.2	110.9	118.9	9.8	97.5	119.4	109.5	8.8	68.8	96.3
1992	110.5	110.0	10.4	109.5	94.8	118.9	115.4	9.8	94.7	120.4	109.4	10.1	69.6	99.2
1993	110.7	105.8	11.7	90.0	98.4	114.1	113.0	10.2	101.5	123.8	111.8	10.4	76.5	104.1
1994	110.5	109.9	12.2	104.1	101.8	107.4	119.9	11.1	103.5	128.5	117.4	9.5	93.9	105.7
1995	110.6	112.0	11.6		97.4	102.1	127.3	12.1	102.0	129.9	120.4	8.7	107.5	105.1
1996	110.2	112.4	12.4		100.7		123.7		103.8	133.6	121.9	8.2	132.0	106.7
2nd qtr.1996	-0.8	-0.3	12.4		98.6		-1.2	12.0	100.6	2.8	1.2	8.3	121.3	108.1
3rd qtr.1996	-2.4	0.6	12.5		101.4		-4.7	12.0	102.3	3.4	0.8	8.3	139.7	106.4
4th qtr.1996	1.2	2.0	12.7		100.7		-5.5		103.8	3.9	1.5	8.0	154.5	106.7
1st qtr.1997					101.1					4.4	1.4			
April 1996	0.5	0.1	12.3		99.0		-3.8	n.a.	100.3	2.3	0.8	8.4	115.4	105.7
May	-2.4	0.0	12.4		99.1		-1.3	n.a.	100.3	2.4	1.6	8.3	120.2	105.9
June	-0.4	-1.0	12.4		99.6		1.7	n.a.	100.6	3.5	1.1	8.3	128.2	106.1
July	-2.0	0.6	12.4		100.3		-3.2	n.a.	101.1	2.3	1.4	8.2	133.8	106.2
August	1.4	0.6	12.6		101.0		-7.9	n.a.	101.8	4.3	0.7	8.3	137.8	106.4
September	-6.4	0.6	12.6		101.4		-2.7	n.a.	102.3	3.6	0.5	8.3	147.5	106.4
October	4.4	1.9	12.6		101.4		-2.8	n.a.	102.7	4.3	1.4	8.3	152.6	106.7
November	0.4	2.0	12.7		101.1		-2.2	n.a.	103.2	4.3	1.5	7.9	156.2	106.8
December	-1.1	2.1	12.7		100.7		-11.0	n.a.	103.8	3.0	1.7	7.7	154.8	106.7
January 1997	-0.3	0.7	12.8		100.6		-1.9	n.a.	105.1	4.9	2.4	7.4	152.9	106.6
February	-3.2	1.8			100.8		1.1	n.a.	105.4	4.3	1.2	7.2	157.4	106.5
March					101.1			n.a.		4.0	0.6			

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD sales. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

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NEWS: THE AMERICAS

Final accord on budget stays elusive

By Gerard Baker in Washington

Republicans in the US Congress have warned that substantial difficulties remain in the struggle to fill in the details of the historic agreement to balance the federal budget by 2002.

The White House and Congress remain apart on a range of tax and spending plans left unresolved when they agreed on the broad outline of the deficit-elimination plan two weeks ago.

Neither side expects the agreement to unravel, but a final accord seems unlikely to be achieved in the near future. Mr Newt Gingrich, Speaker of the House of Representatives, said at the weekend there would still need to be a great deal of haggling over the detail and congressional Republicans and Democrats agree much more needs to be done before the agreement can be enacted.

At the same time as balancing the budget, the deal envisaged the largest reduction in taxes for more than a decade – $135bn over the next five years. It also called for limited spending cuts in a range of services, most importantly in Medicare and Medicaid, the health insurance systems for the elderly and the poor.

Stronger than expected tax revenues mean the two sides are forecasting a decline in the federal deficit from $70bn in the current year to zero by 2002, the first balanced budget in a generation, even with the tax cuts.

But the overall scale of the tax and spending cuts were simply headline numbers, with the details to be agreed. Tax is the most contentious issue.

In addition to a large capital gains tax cut, the Republicans want an extensive child tax credit that would apply to most American families. The Democrats favour limiting it to middle income families and extending broad tax credits for education.

Tax increases and cuts are the most contentious issues

There are also tussles involving tax increases. Mr Bill Archer, Republican chairman of the House Ways and Means committee, strongly opposes some of President Bill Clinton's proposed business tax increases and is instead pressing for limiting tax breaks for low-income housing and other programmes.

Mr Gingrich, acknowledging the substantial difficulties that remain, said: "People are going to be under the boards hitting pretty hard to make sure they get their particular paragraph in those 2,500 pages" of the final budget bill.

Not such a big budget deal after all

If the final haggling over the details is successfully completed, the US will soon have in place a realistic plan to balance the federal budget for the first time in 30 years.

The implications for the world economy and global financial markets of the outline agreement by the president and Congress two weeks ago to eliminate the fiscal deficit by 2002 ought to be of truly millennial significance. For most of the past two decades, the enormous US budget deficit has been viewed by economists and policymakers as one of the great impediments to global economic stability.

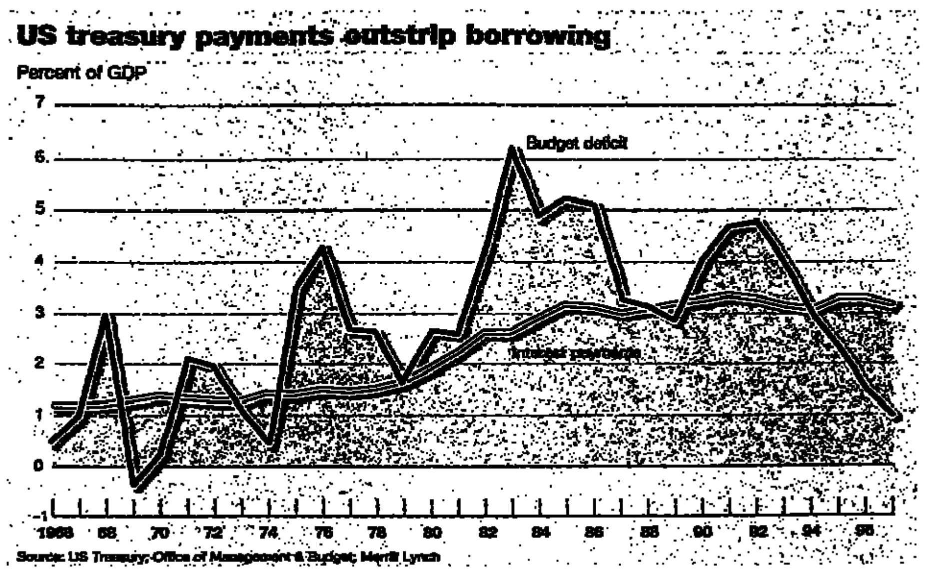
The federal government's need to use up to 5 per cent of the total output of the US economy to finance its borrowing meant that interest rates were much higher than they would otherwise have been, with obvious implications for US and global demand, capital flows, and currencies. The imminent disappearance of that requirement should force down long-term interest rates in financial markets.

Yet reaction so far has been muted. Much attention has been focused on the fact that a large part of the reduction in the deficit arises from the "windfall" of faster growth, and does not represent a serious cut in spending. There is also the widespread perception that most of the reduction has already been achieved, with the deficit down from 5 per cent of GDP in 1991 to less than 1 per cent this year.

But that ignores the fact that the gap was set to rise again in the next few years, without a budget agreement. And though the revenue windfall was significant, there can be no doubt that the US has done much to close its underlying deficit in the last few years.

According to the International Monetary Fund, the US federal government's "structural deficit," the deficit that would be produced with the economy growing at its trend rate, is likely to fall to just over 1 per cent in 2002, the lowest among the world's leading economies.

Interest markets should therefore, soon be feeling the beneficial effects. According to Mr Bruce Steinberg, economist at Merrill Lynch, the New York investment bank, the US Treasury is in the unusual position of becoming a net supplier of funds to the world's capital markets. Borrowing – new issues of Treasury securities – will total about $70bn this year. Interest payments on the existing government debt paid by the Treasury will reach $240bn – over 3 per cent of GDP.



With a budget deal in place, the net supply of Treasury bonds will presumably shrink still further over the next five years, a development that should ordinarily push interest rates lower.

Long-term rates might also get help from the Federal Reserve. Mr Alan Greenspan, the central bank chairman, has promised that a credible deficit reduction package would be met by a suitably accommodating monetary stance.

But the caution with which the bond market has so far greeted the deal is probably justified. The smaller deficit means long-term interest rates should be lower than they otherwise would have been but that does not mean they will decline, for three good reasons.

First, the same strong growth in the economy that has helped to increase tax revenues is also likely to push up inflation. For all Mr Greenspan's sweet talk about deficits, the markets know the Fed is concerned about potential damage from accelerating inflation.

Second, though the budget may balance by 2002, it is highly unlikely to balance thereafter. The long-term prognosis for spending on entitlements such as public pensions and health insurance suggests without much more radical legislative action, the Treasury will quickly revert to its more familiar role of borrower.

But third, and perhaps, most importantly, the progress made in reducing public sector borrowing in the last five years has been mirrored by a sharp increase in private-sector borowing.

As Mr Stephen Roach, chief economist with Morgan Stanley, another New York investment bank, argues, it is the overall – public and private – supply of and demand for money that determines the level of real interest rates. While government borrowing has fallen to near zero from an average of 2-3 per cent in the 1980s and early 90s, the personal savings rate has also fallen from about 7.5 per cent in 1970s and 1980s to less than 5 per cent today, leaving the overall supply of savings broadly unchanged.

"Real long-term interest rates, which soared to 5 per cent in the budget-swollen 1980s, are unlikely to return to the historic lows of 2.25 per cent that prevailed in the days of innocence of the 1950s and 1960s," he says.

Instead, perhaps, the world's investors can simply be relieved that, at least partly because of the efforts of president and Congress, the cost of borrowing is not even higher than it is today.

Gerard Baker

Mr Clean faces uphill task in Colombia poll

Popular chief prosecutor sets his sights on the presidency

By Timothy Ross in Bogota

The campaign by Colombia's former prosecutor-general to become the country's next president has received a fresh boost from new evidence linking his main rival with the country's top drug cartel.

Mr Alfonso Valdivieso, 47, resigned as prosecutor-general last week to comply with the country's candidacy rules, and now leads popularity polls for his courageous and energetic role in investigating links between the country's political elite and crime leaders.

Valdivieso: white knight against drugs barons

Fresh allegations have emerged in Spain linking Mr Horacio Serpa, interior minister and his main rival, to drug traffickers. This comes after a preliminary indictment was issued by the prosecutor's office earlier this year against Mr Serpa, for his role in allegedly covering up criminal actions involved in the financing of the 1994 presidential campaign by leaders of the Cali drugs cartel, in return for promises that they would never be extradited to the US and that prosecution and confiscation of their multi-billion-dollar illegal fortunes would be delayed.

Mr Serpa, virtually certain to be the official Liberal Party candidate, was a senior member of President Ernesto Samper's campaign staff in 1994.

The campaign manager and treasurer have since been convicted and imprisoned for collecting $6m from the notorious Rodriguez Orejuela brothers and other leading traffickers, and Mr Serpa has been repeatedly linked to illegal donations and to their distribution for vote-buying.

Among others already jailed in the course of *Proceso Ocho Mil* – Case No 8,000 – are 10 members of Congress, the former attorney-general and his deputy, and several ex-senators and diplomats.

New evidence that appears to link Mr Serpa to drug money has come from the statements made to an investigating magistrate in Spain by a captured prominent drug trafficker, in which he described meetings between Mr Serpa, Mr Samper, and other campaign officials with a trafficker representing the Cali drug billionaires to arrange funding.

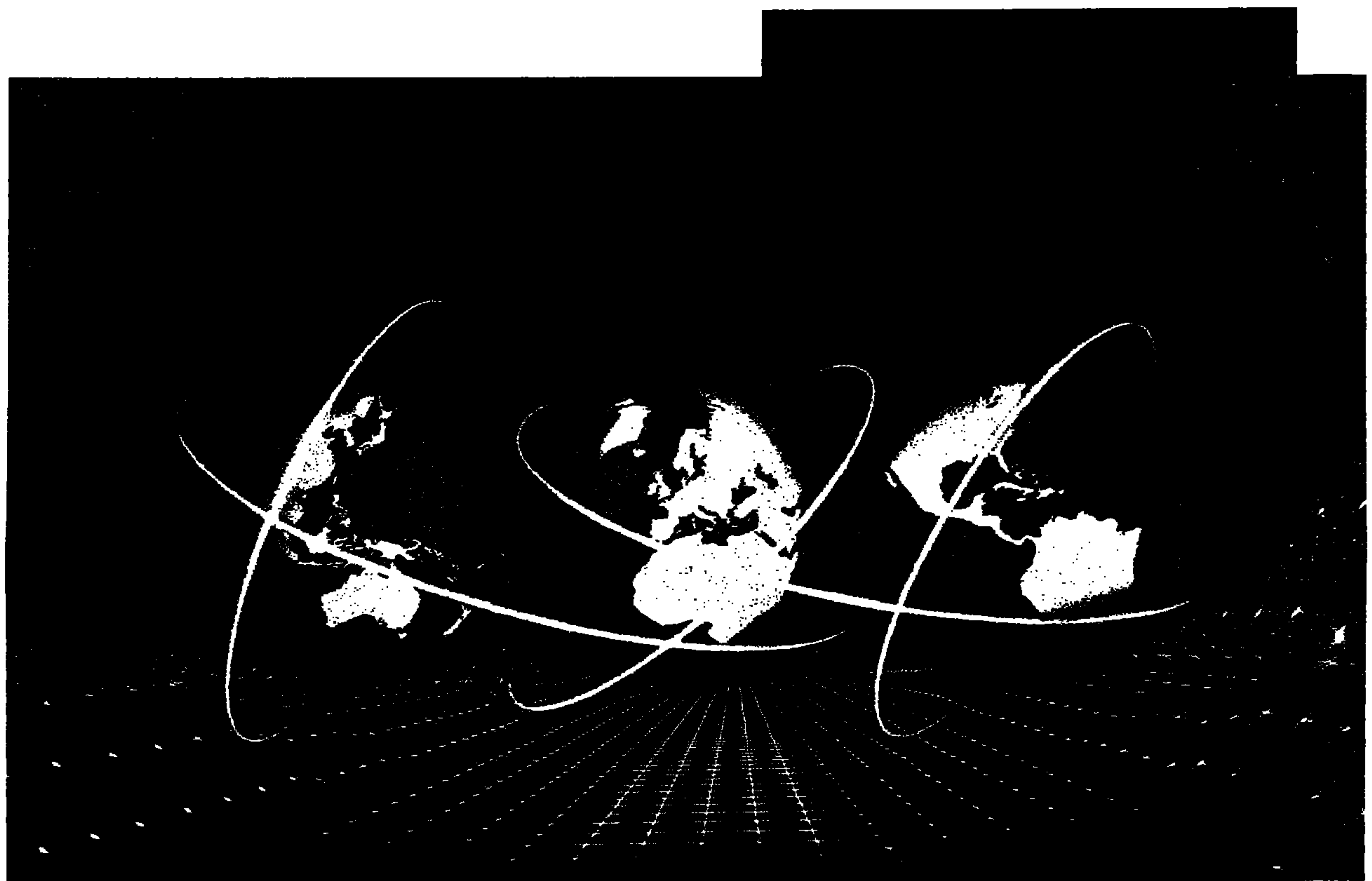
Documents detailing these and similar cases have often leaked out of the prosecutor's office fuelling allegations that Mr Valdivieso was using his position to prepare his presidential bid. The former prosecutor has so far maintained an unblemished reputation for honesty. He has previously held a variety of public positions, including those of congressman and education minister.

However, many analysts give him little chance of winning the election next year because of his lack of party machinery, campaign funds and his lack of a populist oratorical style necessary in Colombian electioneering.

Election results in Colombia are not determined by public sympathy but by well oiled structures of regional power-brokers who trade captive votes for political favours and jobs.

The anti-establishment vote will be split. Among the other contenders are Mr Antanas Mockus, eccentric ex-mayor of Bogota, Mr Noemi Sanin, former foreign minister, who says she wants to be "the Margaret Thatcher of Latin America", Mr Juan Manuel Santos, former foreign trade minister, Mr Andres Pastrana, the losing opposition candidate in the 1994 election, and at least three others.

Mr Mockus's cash-starved but successful mayoral campaign showed that a non-party candidate can win. A proposal is being floated that he should join up with Mr Valdivieso as his vice-presidential candidate, a formula that might just tip the balance against Mr Serpa and the Liberal machine.



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Disappointment over Washington's hard line against Europe's banana import regime

Clinton in pledge on Caribbean exports

By Canute James in Kingston

Clinton shakes hands with Jamaican PM Percival Patterson at the weekend summit. Reuter

President Bill Clinton has agreed to implement measures to increase Caribbean exports to the US, but has rejected a request by Caribbean countries for the US to end its attack on European banana import preferences, which mainly benefit their exporters.

Caribbean leaders were also disappointed at the end of a weekend summit with Mr Clinton in Barbados that they had received no promises that the president would entertain their request for "Nafta parity," allowing them access to the US market similar to that of Mexico.

Several Caribbean leaders spoke of a "new" relationship with the US coming out of the summit, but others appeared disappointed they had not gained any concessions on the banana issue. The World Trade Organisation has upheld a US complaint that the EU banana regime, which favours former European colonies, violates the rules of open trade.

Caribbean governments have said dismantling the preferences would damage the economies of several islands, unable to compete with cheaper fruit from Latin America. "We spent some time talking about bananas," said Mr Percival Patterson, Jamaica's prime minister and chairman of the Caribbean Community (Caricom). "Bananas are to us what cars are to Detroit."

Caribbean leaders were not comforted by Mr Clinton's statement that the US did not object to duty-free access to Europe for the region's bananas. "An attack on elements of the import regime threatens the duty-free access," one prime minister said. "We hope for more encouragement when Mr Clinton meets European Union leaders later this month."

Claiming they were losing foreign investments and lucrative markets in the US to a more competitive Mexico, Caribbean and Central American countries have been asking the US and Canada to grant them Nafta parity, removing barriers to imports from the region.

Mr Clinton appeared more inclined to pursue improvements to the Caribbean Basin Initiative (CBI), a trade programme implemented by the US 13 years ago, which allows products from 24 countries, selected by Washington, duty-free access to the US.

Mr Clinton has proposed legislation for improvements to the CBI, but said the success of this effort depended on the support of Republican legislators. "I made it clear in our meeting that all I could do was ask the Congress for support," the president said. His proposals are based on a $2bn programme to lower tariffs over five years.

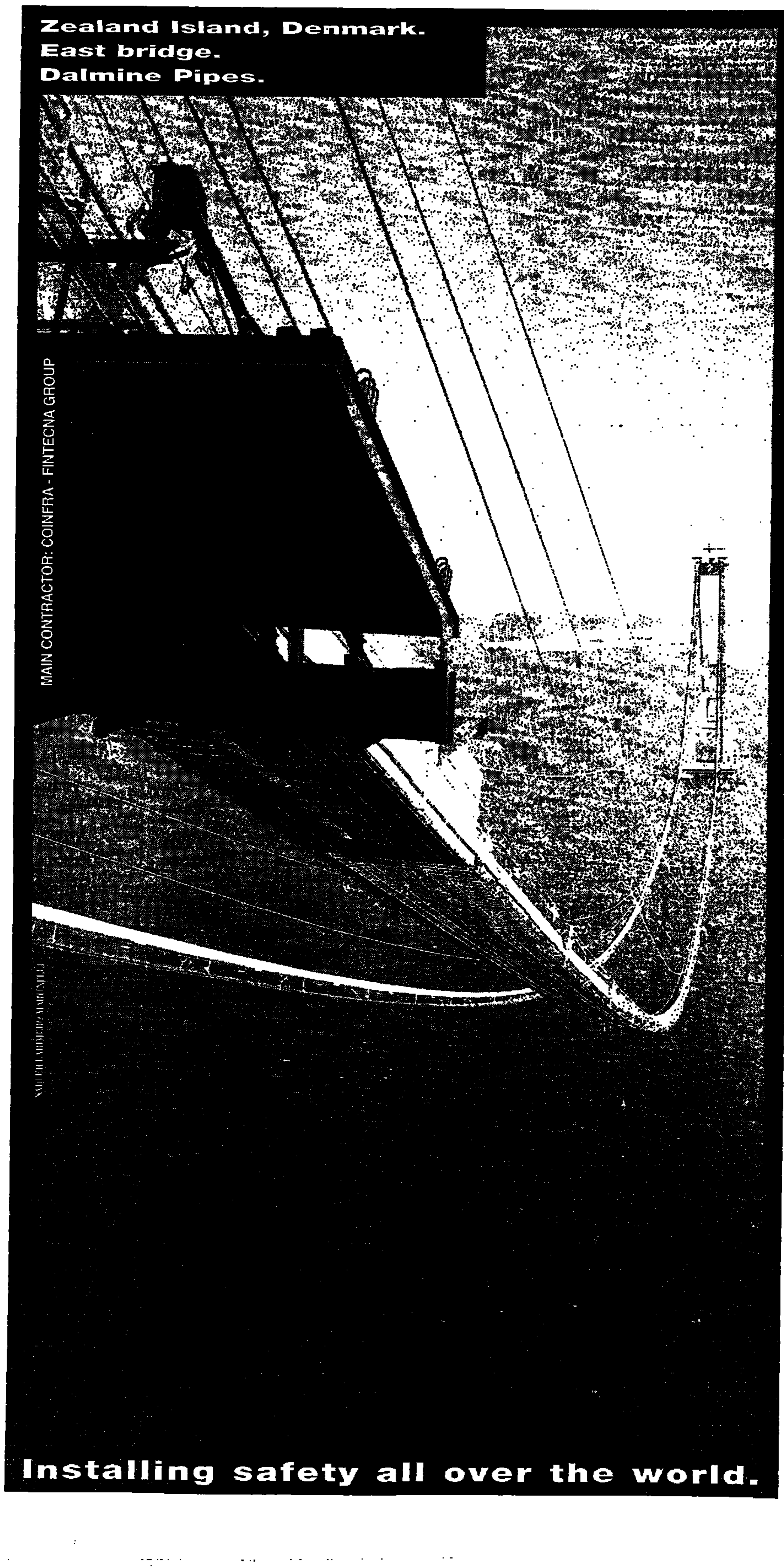
Mr Clinton and the Caribbean leaders agreed on increased efforts to combat the flow of narcotics through the region from South to North America. US reports suggest about 40 per cent of narcotics entering the US from South America pass through the Caribbean.

Some countries had objected to sections of a controversial treaty proposed by the US to allow its law enforcement agencies access to their territorial waters and air space. After weeks of negotiations, Barbados and Jamaica signed last week.

Other leaders argue that security issues in which the US is interested, such as drugs, are related to the economic concerns of the region for a more precise US commitment to helping their economies. They had argued that they wanted trade, not aid.

"It must be clear to President Clinton and all his advisers that if the small Caribbean countries cannot live by trade in selling bananas to Europe and other goods to the US, then they will collapse and the region will become a playground for the narcotics cartels," one disappointed prime minister said. "We do not want this to happen, and I do not think this is what the US wants to see."

The summit apparently avoided the contentious issue of relations with Cuba. While the US has been tightening its economic embargo, seeking political and economic reforms, Caribbean countries say change in Cuba can be achieved through integration rather than isolation. Caricom, the Caribbean community and common market, is to consider a Cuban request for a free-trade treaty.



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WORLD TRADE NEWS DIGEST

Clinton warns on air merger

The Clinton administration, spurred by a letter from a group of senators attacking the European Union, warned yesterday that it was watching the EU closely to be sure it weighed the merger of Boeing and McDonnell Douglas objectively.

"We have made it clear to EU officials that it is essential that extraneous factors play no role in the commission's competition analysis of this merger, and that we are watching that process closely," an administration official said.

The EU is reviewing the merger because Boeing does a brisk business with European airlines. It can impose a fine equal to 10 per cent of Boeing's annual gross world income if it decides the merger is anti-competitive.

A bipartisan group of seven senators, most of them from states where Boeing has large plants, have signed a letter to President Clinton accusing the EU of prejudging the matter.

Last month, Mr Karel Van Miert, the EU competition commissioner, said the commission might act against the merger because of competitive concerns. The senators said his statements were "inappropriate, prejudicial and troubling". *Reuter, Washington*

Microsoft progress in China

The tide is turning in Microsoft's campaign to ensure Chinese personal computer makers ship their products complete with legitimate copies of the US group's software, a company official said yesterday.

Nearly a decade of persuasion, sales incentives and China's crackdown on piracy were persuading local companies to bundle Microsoft products on new computers, said the representative.

In 1996, about 30 per cent of personal computers sold in China had legitimate software, such as Microsoft's Windows operating system, but that figure could rise to 50 per cent this year, he said. *Reuter, Beijing*

Thai power deal with Burma

Thailand plans to buy 1,500MW of electricity over the next 10 years from planned hydropower projects in Burma with a memorandum of understanding to be signed in July, official *Radio Thailand* reported.

The agreement calls for Thai companies to invest at least 25 per cent of the cost of any new Burmese plant supplying to Thailand. Thailand is already involved in two projects to buy natural gas from Burma to fuel power generating stations on Thai soil. *Ted Bardacke, Bangkok*

Fujifilm in new push to boost exposure in US

But some see the initiative as a ploy to launch a pricing war, **Michiyo Nakamoto** writes

Many photographers in the US may own a made-in-Japan Nikon camera, but when it comes to film, the American preference is for the home-grown Kodak brand, which enjoys a 70 per cent share of the US consumer colour film market.

Fujifilm has struggled for over three decades to win the hearts and minds of photographers in the US, but has been stuck with just 10 per cent of the market.

Last week, the Japanese company announced it would manufacture 35-mm colour film in the US for the first time in a bold step towards rectifying the imbalance.

Fujifilm said it would invest an additional $200m in its South Carolina facility to manufacture colour film and expand production of photographic paper.

"To win against the competition, we must be closer to the customer, to make products that meet market needs," a Fujifilm representative said.

But others in the industry say Fujifilm's plan will also allow the company to control pricing in the US market more freely, giving it greater freedom to launch an aggressive pricing war.

The US market is the world's biggest and twice the size of the Japanese market. For Fujifilm, renowned for its high-level technology and thorough marketing, greater flexibility on pricing in the US is a weapon it could use to good effect.

Despite a dogged campaign to win wider acceptance in the US market, Fujifilm has faced the same problems that Kodak has experienced in Japan. The two companies have been embroiled in a highly public battle over Fujifilm's allegedly unfair business practices in Japan, which Kodak claims has kept its colour film off Japanese shop shelves and restricted its market share.

The dispute, taken up by the US and Japanese governments, is now being investigated by the World Trade Organisation.

The main obstacle to Fujifilm's expansion in the US, and to Kodak's in Japan, is consumer preference for the national brand, industry analysts say.

But lack of exposure to consumers has also hampered each company's respective ambitions in its rival's home market.

Just as Kodak claims it faces problems getting its products into Japanese shops, Fujifilm says it has fought an uphill battle to win a place in many of the large retailers that sell 50 per cent of all US consumer photographic film.

Eckerd Drug, a chain of over 1,700 drug stores throughout the south-east and south-west of the US, has refused to carry Fujifilm for over 20 years, while Publix supermarkets, a chain of over 470 grocery stores in Florida, has never carried the Japanese film, Fujifilm says.

By manufacturing colour film in the US, Fujifilm hopes it will have a better chance of meeting the many stringent demands made by these retailers in a timely manner.

"Since we manufacture on order, it could take up to four months to adjust our products to the needs of large retailers," a Fujifilm representative says.

The trend towards multi-roll film packs and the need to change the packaging frequently for sales campaigns increases the need for flexible manufacturing, he explains.

Fujifilm emphasises that cutting costs was not a major factor behind its decision to manufacture colour film in the US. However, amid fierce competition in the US market, the widespread practice of multi-roll packaging, which reduces the price of each roll of film and is much more prevalent there than in Japan, means reducing costs is a priority.

Fujifilm is also clearly aware of the impact price cuts can have in expanding market share. In Japan, aggressively priced private-label colour film has helped competitors chip away at Fujifilm's 70 per cent share of the consumer colour film market.

As an importer into the US, Fujifilm cannot reduce prices significantly without facing accusations of dumping. In 1993, it was penalised after being accused by Kodak of dumping photographic paper on the US market. Last year, the company began manufacturing photographic paper at its South Carolina plant.

Whether or not Fujifilm's latest move will bring it a larger market share in the US remains unclear. When it opened its latest manufacturing facility, Fujifilm found its capacity to make photographic paper exceeded demand.

Ripple effect of manufacturing investment stressed

30% of growth 'due to overseas methods'

By Peter Marsh in London

Almost a third of the productivity growth in UK manufacturing industry since the mid-1980s can be ascribed to the "ripple-through" effects of changes in work practices triggered by inward investment, according to a report to be published later this year.

The study – by the National Institute of Economic and Social Research, an independent research body – is among the first to quantify the wider impact of ideas introduced in plants set up in Britain by companies from overseas.

It is likely to provide more evidence to the government of the broader benefits that can accrue from the rising volume of investment.

The research – based on economic data and industrial trends over the past 20 years – also provides explanations of why manufacturing productivity in the UK has risen faster in the past 10 years than in the previous decade and at above the rate of many competitors.

The findings will be of particular interest to Mrs Margaret Beckett, president of the Board of Trade (chief industry minister). She is expected soon to review strategies for attracting inward investment, with a view to reducing the overlap of efforts by different state agencies and ensuring the UK gets returns from regional assistance grants.

In the 10 years to 1994, investment in UK manufacturing from other countries increased 75 per cent in real terms to about £40bn ($64.8bn). More than a quarter of UK manufacturing output is now estimated to come from non UK-owned factories, up from a fifth in 1990. Spending on new plant and equipment has been led by Japanese, US and German businesses.

In many cases, supplier companies have been encouraged to take on new cost control and self-improvement techniques. This has been driven partly by the move to just-in-time production which puts the onus on suppliers to use similar manufacturing standards to their customers.

According to a study by Mr Nigel Pain and Mr Ray Barrell, two researchers at the NIESR, this process of "osmotic transfer" of new ideas is a big factor behind the leap in productivity growth in manufacturing from 1985. The study says that, in the previous 13 years, productivity measured by value-added per hour worked increased by an average of 2.8 per cent a year. But in the decade after 1985, it went up by an average of 3.75 per cent a year.

The figure was the second-best over this period for the Group of Seven leading industrial nations, with only Japan performing better.

According to the institute's research, most of the UK's spurt in from 1985 can be ascribed to underlying advances in technology.

But about 30 per cent of the 1985-1995 productivity increase can be linked to the new inward investment over the period, and the diffusion effects of new ideas spilling out to manufacturing.

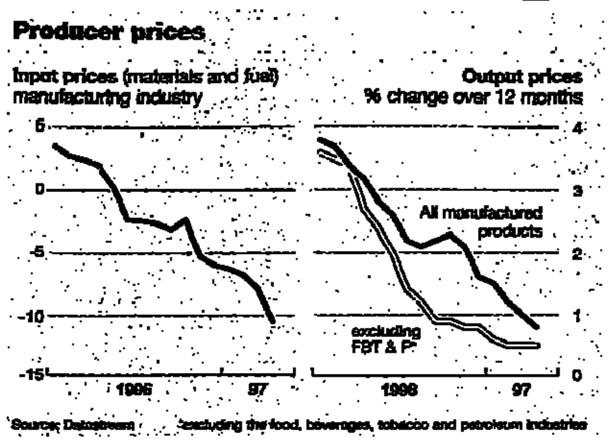
Central bank chief upbeat on inflation

By Richard Adams, Economics staff

The UK has a "better or even chance" of meeting the government's inflation target, Mr Eddie George, the governor of the Bank of England and head of the new committee responsible for setting interest rates, said yesterday.

Mr George's comments came as the UK central bank prepared to publish its quarterly *Inflation Report* today, the first since it was granted control of interest rates. A series of data yesterday suggested that inflation remains subdued.

Speaking in Basle, Switzerland, where he was meeting central bankers from the Group of 10 leading industrial countries, Mr George also said he expected inflation to decline in coming months.



Source: Datastream *excluding the food, beverages, tobacco and petroleum industries

Analysts in London said that Mr George's remarks, and official figures showing factory gate price rises at a 10-year low, made a rapid rise in interest rates unlikely. Mr George, who will chair the monetary policy committee proposed by government's reforms to the Bank, said: "Our job is to achieve the target for inflation that the government has set of 2.5 per cent or less. There is a better or even chance of 2.5 per cent or less."

The target rate of inflation – retail prices excluding mortgage payments – was 2.7 per cent in March. The latest figures, due on Thursday, are forecast to have fallen to 2.6 per cent in April.

Mr George declined to say if he saw the need for a further rise in interest rates following last week's quarter of a percentage point rise to 6.25 per cent. "Wait until the *Inflation Report*, that will make it clear," Mr George said.

Prospects for lower inflation were reinforced by official figures which showed that prices charged by manufacturers rose only 0.8 per cent in the 12 months to April. This was the lowest rate of factory gate price increases since September 1986. In the year to March, output prices had risen by 1 per cent.

Manufacturers were helped by a steep decline in the costs of materials and fuel. The fall was the sharpest for 10 years, aided by the high exchange rate. Seasonally-adjusted input prices in April fell by 1.9 per cent after a 0.8 per cent drop in March. Overall input prices are now 10.5 per cent lower than at the same time last year, the steepest annual fall since November 1986.

Mr Alex Garrard, UK economist at UBS investment bank, said: "These very soft figures will make it more difficult for the newly-independent Bank to justify an aggressive monetary tightening."

Lockheed to be fined over late RAF deal

By Bernard Gray, Defence Correspondent

Lockheed Martin, the US aerospace giant, will have to pay the UK Ministry of Defence fines ranging between £20m ($32.4m) and £40m because it will be at least a year late delivering new transport aircraft for the Royal Air Force.

The setback is an embarrassment for Lockheed, which won the £1bn fixed-price contract to supply the RAF with 25 new Hercules C-130J aircraft in 1994, after a bitter battle against the alternative European Future Large Aircraft. The C-130J is a radical updating of the 40 year Hercules.

But development problems have meant that it did not meet the contracted delivery date to the ministry of November 1996, and the first aircraft will not now be delivered until late this year at the earliest.

Lockheed has had problems with a US supplier of liquid crystal displays for cockpit monitors and other avionics software bugs.

The problems are a blow to Lockheed's efforts to market the C-130J to other customers.

The RAF was the first and biggest customer to take the new version of the Hercules, and since then the US Air Force has taken four while Australia has ordered 12.

But the fate of the Future Large Aircraft as a potential competitor to the Hercules is far less clear. So far European governments have failed to find any money to develop the new aircraft.

UK NEWS DIGEST

Rail group seeks longer franchise

Rail services on the east coast main line between London, and Edinburgh, the Scottish capital, will reach full capacity within three years as a result of service improvements and aggressive marketing, Mr Christopher Garnett, chief executive of Great North Eastern Railway said yesterday. The company is one of the privatised train operating companies carved out of the state network by the Conservative government.

GNER hopes to use the prospect of overcrowding on its trains – it currently carries up to 30,000 passengers a day – to persuade the government to grant an extension of its seven-year franchise. He said this would justify investing in a fleet of new tilting trains. Mr Garnett said: "We will tell the government that we either stagnate and wait until our franchise ends or we are given a longer franchise." GNER plans to reintroduce a London-Edinburgh journey time of under four hours when the summer timetable starts on June 1 in the hope of attracting more passengers from airlines. *Charles Batchelor*

■ ALCOHOLIC DRINKS

Police protest at 'dairy coolers'

A police force protested yesterday against the test marketing of an alcoholic milk drink intended to be sold in pubs. The banana and strawberry flavoured drinks, which are 5 per cent proof, are being sold as "alcoholic dairy coolers" under the brand name Moo.

Moo, invented by the Australian company Specialty Beverages, is manufactured under licence by Netherlands-based DMV, then marketed in the UK through En-Toute-Caisse in southern England.

Chief Inspector Linda Hawkins of Thames Valley police said: "It is sad to think that anyone would attempt to capitalise on the healthy image attributed to milk by marketing a product this way, and we are concerned children will unwittingly be drawn to such drinks." En-Toute-Caisse issued a statement on behalf of the Australian company insisting that criticism was "ill-conceived". The company said Moo was not a milk shake but a "flavoured cream liqueur blended with water".

■ PENSION FUNDS

Fidelity beats league leader

The UK institutional arm of Fidelity, the US-based investment giant which controls assets of more than £300bn ($485bn) worldwide, says its recent performance for UK segregated pension fund clients has exceeded that of M&G. The latter was highlighted in the Financial Times survey on pension fund investment last Friday as the top manager over a five-year period. Fidelity recorded a median rate of return of 14.3 per cent in 1996 and 17.5 per cent annualised over five years, making it the top performer over both periods. Although in several recent years its volume of funds managed was too small to qualify for the annual table of the top 25 pension fund managers, in 1996 its funds doubled to £2.08bn (for 17 compared with 9 clients) making it the 22nd biggest manager. *Barry Riley*

Food export data defy EU beef ban

By Maggie Urry in London

Exports of food and drink from the UK increased in 1996 in spite of the worldwide ban on British beef imposed in March last year.

Exports totalled £10.1bn ($16.3bn), a 1 per cent increase on the 1995 figure which included £600m of beef exports, Food from Britain, the export marketing consultancy, reported.

Increases in sales of other products more than offset the loss of an estimated £459m of beef sales. Mr Patrick Davis, chief executive of Food from Britain, said 1996 was a difficult year and he was "really pleased we managed to beat the previous year".

Although the UK still imports more food and drink than it exports, the trade gap has narrowed. Mr Davis said that exports now amounted to 60 per cent of imports compared with 25 per cent 20 years ago.

Aside from last year, food and drink exports have been growing at an annual rate of 8 per cent to 9 per cent, he said. The UK is the world's sixth biggest food and drink exporter.

Within the £3.17bn drinks sector, dominated by whisky exports, beer sales increased 38 per cent to £242m.

Consumers in the US increased their purchases of British beer by £15m, as the expanding micro-brewery sector searched for new tastes. Cheese sales to the US were also strong.

France remained the biggest export market, buying £1.6bn of UK food and drink. That was a 2 per cent fall from 1995, reflecting the beef ban. But excluding meat, sales to France increased 15 per cent.

German consumers' distaste for British beef did not extend to other products and exports to Germany were up 11 per cent to £784m.

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Promotion of trade compatible with extra emphasis on human rights, says minister

Foreign Office aims to boost exports

By John Kampfner and Bernard Gray

A more concerted promotion of trade and greater emphasis on human rights were pledged yesterday by Mr Robin Cook, the foreign secretary. He denied that the two goals were incompatible.

Launching a "mission statement" by the Foreign Office, Mr Cook suggested resources of embassies would be reallocated to take more account of the need to push British exports.

Mr Cook will announce later this week a joint initiative with the government's trade and industry department to inject more business experience into UK diplomacy. The tone of the launch – accompanied by a video proclaiming Britain's role at the forefront of peace-keeping, technology, the environment, fashion and the arts – was designed to shed the Foreign Office's "crusty" image.

Sir David Puttnam, the film director, has been asked to direct a video to be sent to all UK posts to explain the new mission.

Mr Cook said he intended to demonstrate a new approach, to contrast with the outgoing Conservative administration, by making "Britain once again a force for good in the world". He said: "It supplies an ethical content to foreign policy and recognises that the national interest cannot be defined only by narrow *realpolitik*."

The Foreign Office would work closely with the environment department to provide a lead for agreement on "firm, tough targets" at forthcoming UN conferences.

Mr Cook said the government would tighten the criteria for arms sales, making clear they would not be exported for use in "internal repression or external aggression".

He said that he had made clear his intent to work with Portugal, the former colonial power, to find a "satisfactory solution" to problems in East Timor. There have been allegations that British Aerospace's Hawk aircraft have been used by Indonesia to suppress dissent in the former Portuguese colony. Nigeria, Mr Cook added, would come under scrutiny in advance of the next Commonwealth summit, to be chaired by the UK in Edinburgh in October.

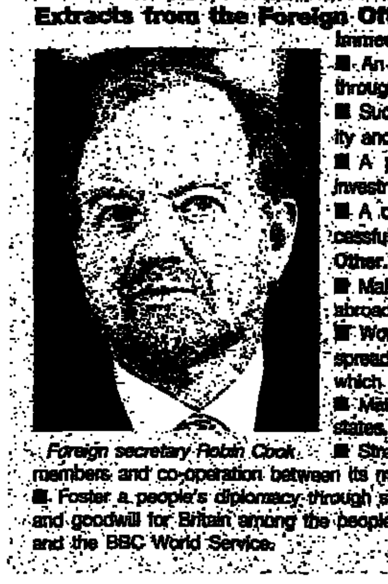
As one of the four biggest exporters of arms in the world, Britain had a particular responsibility to ensure that the trade is properly regulated, he added.

The UK's biggest arms companies are unlikely to be badly affected since the weapons which are most likely to be targeted for a ban will be cheaper weapons sold to smaller regimes.

● Mr Cook denied that his call last week for Britain to join France and Germany in taking a leading role in the European Union was aimed at driving a wedge between large and small member states. He was responding to concern expressed by the Italian government.

'To promote the national interests of the UK'

Extracts from the Foreign Office "mission statement"



Foreign secretary Robin Cook

Immediate priorities:

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■ A deeper dialogue with the countries of Asia through Asia-Europe summit.

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■ Make the UK a leading player in a Europe of independent nation states.

■ Strengthen the Commonwealth and improve the prosperity of its members and co-operation between its members.

■ Foster a people's diplomacy through services to British citizens abroad and by increasing respect and goodwill for Britain among the peoples of the world drawing on the assets of the British Council and the BBC World Service.

Ex-Clinton aide warns premier on tax changes

By Robert Peston, Political Editor, in Brussels

A warning to Mr Tony Blair, the prime minister, against raising the personal tax burden in the forthcoming Budget was made last night by a former senior aide to US president Bill Clinton.

"Labour has to be very careful not to make its campaign seem hollow," said Mr George Stephanopoulos, who was Mr Clinton's senior adviser on policy and strategy until the end of last year. "It has got to stick both to the letter and the spirit of its promises."

Labour's manifesto says the government will not raise the basic or top rate of income tax. But some ministers believe that the Budget should push up personal taxes by other means, such as abolishing higher rate tax relief on personal allowances.

Mr Stephanopoulos also cautioned Mr Blair against too much informality and publicity over changes to the machinery of government.

The remarks are significant because Mr Blair's campaigning techniques have been based largely on Mr Clinton's.

In the last few days, he has given his views privately to senior Labour strategists including Mr Alastair Campbell, the prime minister's press secretary, and Mr Philip Gould, one of Mr Blair's most trusted external advisers.

But last night he expressed them publicly at the annual award ceremony of the Institute of Public Relations.

"I do not want to be seen as critical," he said. "Frankly I am overwhelmed by how successful they have been." But he is concerned about Mr Blair's attempt to adopt the "common touch" in government and his instruction last week to his cabinet colleagues to "call me Tony".

"When times get tough, it is important for a leader to have a bit of an aura, a bit of mystery," Mr Stephanopoulos told the Financial Times. "He must not overdo the 'call me Tony' approach."

He should focus on what he is doing for people, not on the process of government, Mr Stephanopoulos said. The advice stems from Mr Clinton's early experiences as president. Mr Stephanopoulos said he did not want to exaggerate the similarities between the two governments. "The biggest difference is that we never had the kind of majorities in Congress which the prime minister is enjoying in parliament."

Chancellor wins VAT concession in Brussels

By Robert Peston in Brussels

The European Commission yesterday appeared to back away from its opposition to the UK government's plan to reduce value added tax on fuel from 8 per cent to 5 per cent. In the first concession which the new government has won from Brussels, Mr Mario Monti, the single market commissioner, said he did "not see any particular obstacle at this stage" to the one-off VAT cut.

His remarks followed a meeting with Mr Gordon Brown, the chancellor of the exchequer, who warned him that without such a climbdown, he would issue a statement criticising the commission. Mr Brown will introduce the VAT reduction in a Budget scheduled for June or July.

The commission is opposed in principle to cuts in VAT. Mr Monti said these were not "in the spirit of community legislation". His decision to let the matter drop reflects a new climate of optimism in Brussels that the government will take a more constructive approach to EU relations than its predecessor.

Meanwhile, Mr Brown also attended his first Ecofin meeting of EU finance ministers. He was warmly welcomed by his European peers, who are convinced Labour will take a positive approach to preparations for European economic and monetary union in 1999.

Mr Brown reiterated that sterling's participation in the first wave was "highly unlikely" although he said the option to join at any stage remained open. He rejected the view given yesterday by Mr Theo Waigel, German finance minister, that sterling must rejoin the European Exchange Rate mechanism to qualify.

In a separate meeting with the European Commission president Mr Jacques Santer and Mr Yves-Thibault de Silguy, monetary affairs commissioner, Mr Brown stressed that the priorities when it takes over the EU presidency next year are completion of the single market, the encouragement of market flexibility, the removal of fiscal disincentives to work and the encouragement on education and training.

Mr Monti said he "welcomed the chancellor's confirmation that Sir David Simon will have special ministerial responsibility for the single market". Last week former BP chairman Sir David was appointed a minister of state, floating between the Treasury and the Department of Trade and Industry.

UK NEWS DIGEST

Blair meets NI party chiefs

Mr Tony Blair, the prime minister, yesterday held his most intensive round of talks yet on Northern Ireland, meeting the leaders of the region's three main political parties. Officials said the prime minister was in "listening mode" as he and Ms Marjorie Mowlam, chief Northern Ireland minister in his government, discussed the peace process with the three party leaders. They were Mr John Hume, leader of the moderate nationalist Social Democratic and Labour party; Mr David Trimble, leader of the Ulster Unionists, the biggest pro-British party in the region; and the Rev Ian Paisley, leader of of the Democratic Unionists. Ms Mowlam, in a video conference meeting with security chiefs in Belfast, reaffirmed that the government "will never give way to, or be deflected from its course by, politically-motivated violence". Mr Paisley said after the meeting with Mr Blair: "My message to him was a very simple one: respect the ballot box. Move forward democratically and don't allow anybody who can point a gun at anybody else's head to have any say in the democratic process."
John Kampfner

■ AIRLINES

Verdict awaited on alliance plan

Decisions will be required from Labour ministers soon on whether British Airways should be allowed to link with American Airlines to create one of the world's most powerful airline alliances. Mr Robert Ayling, BA's chief executive, saw Mr John Prescott, deputy prime minister and chief transport minister, last week. Mr Richard Branson, chairman of Virgin Atlantic, who strongly opposes the BA-American alliance, is due to see him later this month.

The US government is waiting for Mr Prescott to set a date for the resumption of talks aimed at reaching an "open skies" agreement. The US has said it will not approve the BA-American deal without a new aviation treaty. Mrs Margaret Beckett, president of the board of trade (chief trade minister), will have to rule on the competition aspects of the BA-American alliance. The Office of Fair Trading last year recommended the alliance be allowed if BA and American gave up 168 weekly take-off and landing slots at London's Heathrow airport. The European Commission, which is conducting its own investigation, says that is not enough.
Michael Skapinker

■ GUN CONTROLS

Government heads for clash

The government is heading for its first confrontation with the House of Lords, the unelected upper house of parliament, over legislation to introduce a ban on handguns. Peers from both sides of the upper house plan to vote against the Labour government's proposed total handgun ban, which goes beyond the outlawing of weapons higher than .22 calibre introduced by the Conservatives. Many hereditary peers, who look set to lose their voting rights under Labour, say they are prepared to "go out fighting" even though, in the wake of last year's Dunblane massacre – in which a man with legally held guns killed 16 children and their teacher at a Scottish school – hindering the complete ban could damage the reputation of the upper house. But Lord Pearson of Rannoch, a Conservative, said: "Public opinion is moving against the knee-jerk response to Dunblane in favour of something more sensible."
Liam Halligan

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A material world

Synthetic fabrics have made the switch from sportswear to everyday clothes, says Victoria Griffith

Shoppers may get a surprise if they stop to read labels on clothes. Instead of linen, cotton, silk and wool, they are just as likely to see high-technology materials with mysterious names such as Tactel, Cordura, Supplex, Tencel and Gore-tex.

Even traditional materials are sometimes presented with a twist, such as cotton that has been chemically treated to resist creases and stains.

Technology has become fashionable, and designers are embracing high-performance fabrics, not just for sportswear, but for use in everyday clothing. Several leading fashion houses are making heavy use of the latest textiles.

Mid-market stores such as Marks and Spencer in the UK and Sears Roebuck in the US are also demanding up-to-date fabrics for convenience-minded consumers. Crease- and stain-resistant items are especially popular, particularly in childrenswear departments. The result, say researchers and marketing specialists, is a textile revolution.

"A lot of the fabric technologies that started in industrial and sports clothing earlier in the decade are now trickling down to the average consumer," says Ji-young Ruckman, a senior lecturer on fabrics at the Manchester Metropolitan University in the UK. "It's really changing the way we dress."

Some of the fabrics now in common use have been invented only over the past five years. Tencel, a material launched in 1992 by UK-based Courtaulds, is one. The fabric, made with a natural cellulose found in wood pulp, is claimed to be the only new natural fibre on the market this century.

Originally used to add a soft touch to denim, the material has been updated substantially over the past few years. Through better polymer preparation and spinning technology, Courtaulds now makes Tencel threads so strong and thin that they can be mixed with more structured fabrics such as wools or linens, and easily dyed to produce novelty materials.

Wood-pulp materials may shortly become an even greater force in the market, as the Austrian group Lenzing has announced it will soon start producing a similar fabric. Microfibres – *non-knit materials of* synthetics such as polyester and nylon – are also beginning to make the transition from sportswear to everyday clothing.

The fuzzy polyester fleece once seen only in skiwear, for example, is now showing up in everything from nightgowns to infants' booties. The advantage of microfibres is that they are tiny, and can be packed with so much space between them that they make for a lightweight, warm and breathable material.

"Microfibres can be ideal for raincoats, jackets and other applications," says Marjorie Norton, a textiles researcher in the US at Virginia Tech university in Blacksburg, Virginia. "Non-woven materials, either laminated with another fabric or chemical or standing on their own, will become even more important over the next few years."

Gore-tex, a microfibre made by UK-based W.L. Gore & Associates *that is breathable yet water*proof, is becoming especially popular. Nylon has also been updated, and is now produced in such thin strands that it can be added to very fine materials such as silk to add strength and durability.

Fabric-maker DuPont says its three newer nylon brands – Supplex, Tactel, and Cordura – are top performers for the company. The chemical make-up of the nylon is altered slightly for each brand to produce threads of varying thickness. "Nylon is the strongest of the synthetics, stronger than polyester and spandex," says Eleanor Walsh of DuPont. "It will put up with a lot of abra*sion and wear and tear.*"

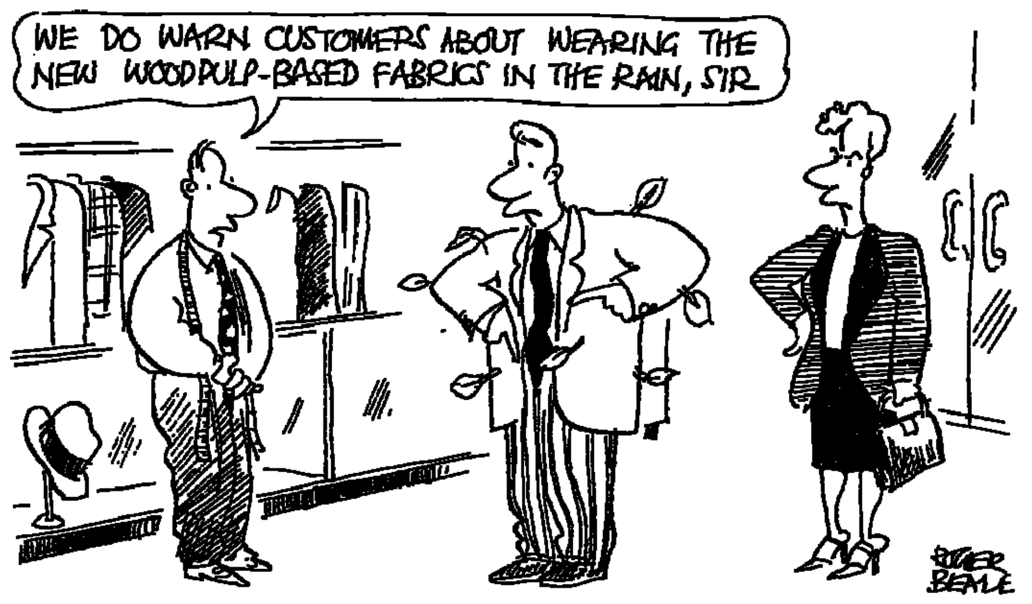
Spandex, a stretchable polyurethane-based fabric, is also a hot product in the modern textile market. Consumers in search of comfort have created such a demand for fabrics that stretch that it is showing up even in semi-formal office clothing. The most popular spandex is Lycra, made by DuPont, which can be pulled out to many times its length without breaking. DuPont says it is working on making the fibre even stronger.

While synthetics manufacturers will continue to improve their products, researchers say one of the most exciting areas over the next few years will probably be treated *natural fabrics.*

"Many consumers want the convenience of synthetics but like the look and feel of natural materials," says Hardy Poole, director of products for the American Textile Manufacturers Institute. "For that market, chemical treatments are key."

To make natural materials wrinkle-resistant, for instance, manufacturers may coat them in chemicals such as ureaformaldehyde. Clothing can also be made stain-proof by dipping fibres in Teflon or similar substances.

Burlington Mills, a US textile manufacturer, for example, treats materials with a chemical resin called Durapel. "We've had a great response from the *market*place for this," says Joel Futterman, director of product development. "The businessman who spills coffee on his suit on the way to a meeting will be grateful for the extra wickability [ability to brush away marks]."



While progress is being made, scientists say there is still much work to be done. Ureaformaldehyde, for instance, may cause skin irritation, and companies might profit from finding a safer alternative. Stain and wrinkle treatments tend to wash out after many uses. And once a stain does penetrate Teflon-coated fabric, the Teflon will make it much more permanent.

Chemical treatments may also weaken the clothing. "When we started seeing 100 per cent cotton wrinkle-resistant slacks in the stores, they flew out the door, because who likes to iron?" says Norton. "But they flew right back in a few weeks later after they'd fallen apart in everyone's washing machine."

The efficacy of such chemical treatments, say scientists, may depend somewhat on factors such as the temperature and humidity when they were applied.

The new synthetics are also far from perfect. Even high-quality polyester fleece tends to coalesce into unattractive balls after moderate use. And some observers believe the craze over fabrics such as Tencel has been exaggerated. "Some people say it feels like silk, but to me it feels slimy," says Ruckman. "I wouldn't want it next to my skin. *I think we still have a way to go* before the synthetics feel as nice as natural materials."

George Cole reports on a technique to encode data on CDs which could help protect music and software copyright

Industry repels pirate boarders

It has been called the Holy Grail of the recording industry – an identification system that enables record companies to add information to a music recording without affecting sound quality. An international project, co-funded by the European Commission and the music industry, aims to do just this.

The Muse project plans to develop a system that will hide data on a music recording using a technique called embedded signalling. The data, which will include details about the rights owner and the country of origin, will be used to identify recordings in an age where music is being increasingly broadcast via satellite, cable and even the Internet.

The Muse project began last autumn and will run for 18 months. During this time, various embedded signalling systems will be tested at the TNO laboratories in the Netherlands. The testing process is being managed by another Dutch company, Bakkenist.

Paul Jessop, director of technology at the International Federation of the Phonographic Industry, says Muse has three main objectives: "To produce a system that can identify a genuine recording, be used for royalty collection, and to work as an anticopy system."

The existing royalty collection system is cumbersome and involves people listening to radio or television broadcasts and noting the artist and title information. If the Muse project is successful, the data could be electronically extracted during a broadcast and automatically put into a computer database.

The music industry is also keen to develop a system to prevent consumers making unauthorised copies of digital music recordings. A new generation of digital tape and disc recorders could include electronic circuits which look for an embedded signal. If a signal is detected, the recorder would refuse to operate.

These ideas are not new. In the 1980s, CBS Records – now Sony Music – developed a system known as Copycode. It was designed to prevent people recording music CDs on to digital audio tape decks. Copycode worked by introducing a "notch" in the digital music waveform. A digital tape recorder with Copycode circuitry would identify the notch and refuse to record. But Copycode was found to affect sound quality and abandoned.

'Legitimate CD pressing plants have been duped into making pirate CD-Roms'

The music industry is determined not to repeat previous mistakes, says Jessop: "There are three hurdles to overcome. First, that the system works technically; second that it is robust and can withstand processes such as compression; and finally, that it does not affect the music."

One system under investigation involves hiding the extra data within the music signal. This uses a phenomenon known as masking. When a loud sound signal is mixed with a quieter signal of the same frequency, the latter is hidden or masked. Data could be inserted at low sound levels and masked.

But any system would need to undergo extensive listening tests, says Jessop: "We have to be sure that artists and recording engineers are happy with the process. If they're not – they won't use it."

The computer games industry is also exploring the use of embedded signalling or coding to combat CD-Rom piracy: "There have been a number of occasions where legitimate CD pressing plants have been duped into making pirate CD-Roms," says John Hargreaves of fPrint, a UK information technology company. "In a typical scenario, the plant is given a master disc to press and has no idea what's on it."

The European Leisure Software Publishers Association is working with fPrint to create a system that will give each software title its own "digital fingerprint", which would include details of the owner of the rights. This information could be stored on a central database.

This means that whenever a pressing plant is given a CD-Rom to replicate, the disc could be put into a special reader and its contents checked against the digital fingerprint database. Says Hargreaves: "If we can get full co-operation of software publishers and pressing plants, it will make life harder for the pirates."

An article on the technology and copyright issues raised by digital distribution of music appeared on March 21.

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LAW

'Mountain' label ruling

EUROPEAN COURT

French legislation governing use of the description "mountain" in relation to agricultural products and foodstuffs was contrary to the principle of free movement of goods in the Treaty of Rome, the European Court of Justice ruled.

The case arose out of criminal proceedings against four French nationals who managed cured food companies in the Tarn region.

They had sold products under a label with the description "mountain", when not authorised under French law to make specific reference to mountain areas in relation to those products.

The manufacturers were convicted on appeal. The Cour de Cassation stayed proceedings and referred the case to Luxembourg.

The European Court noted that although the European regulation on the designation and origin of foodstuffs only came into force after the commencement of the French prosecutions, it could still affect the outcome of those proceedings because French law gave retroactive effect to new laws more favourable to the accused.

The Court concluded that the European regulation on the protection of designations of origin presupposed registration, which in turn required that the products fulfilled the conditions laid down by the regulation in respect of the direct link between quality or characteristics of the product, and its geographic origin.

The French legislation did not make authorisation subject to such a link. The Court ruled therefore that the domestic legislation counted as covering a designation or geographical indication.

The description "mountain" was general in character. Nor was it an indication of provenance as defined by the Court.

However, the Court ruled the regulation did not preclude the application of domestic laws.

However, it went on to consider the applicability and effect of the treaty rules on free movement of goods.

It did not accept the French argument, that since the proceedings only concerned national issues the treaty provisions did not apply.

It noted that the prohibition on restrictions on free movement of goods covered all trading rules enacted by member states which were capable of hindering intra-community trade.

Accordingly, while the application of a national measure having no link to the importation of goods did not fall within treaty rules, those rules could not be considered inapplicable simply because all the facts of a case were confined to a single member state.

In such situations the application of national rules might also have effects on the free movement of goods between member states.

In such circumstances the application of the measure, even if restricted to domestic traders, in itself created and maintained a difference of treatment between those two categories of goods, hindering, potentially, intra-community trade.

Since the French government accepted its rules could be applied to imported goods it followed that it was an obstacle to intra-community trade.

It discriminated against imported goods in as much as it reserved use of the description "mountain" to products manufactured on national territory.

Furthermore, the legislation could not be justified on grounds of protection of industrial and commercial property, as the description "mountain" could not be characterised as an indication of provenance.

C-321/94, C-322/94, C-323/94 and C-324/94: Criminal proceedings against Jacques Pistre and others, ECJ 5CH, May 7 1997.

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INTERNATIONAL PEOPLE

Vasella joins Bank's board

Daniel Vasella, chief executive of Novartis, the world's largest drug group, has taken on his first big outside appointment.

He is joining the board of Credit Suisse Group – along with Peter Brabeck, who takes over next month as Nestle's chief executive, Gerald Clark, chief investment officer of Metropolitan Life, and John Hennessy, chairman of Credit Suisse First Boston Private Equity.

The appointments are another sign of Credit Suisse's determination to be regarded as Switzerland's premier international bank.

The boards of the big three Swiss banks include most of the big names of Swiss business and there is considerable competition to recruit rising stars. Brabeck maintains Credit Suisse's close ties with Nestle, where Rainer Gut, the Credit Suisse chairman, is vice chairman. Helmut Maucher, the current chairman and chief executive of Nestle is retiring from the Credit Suisse Group along with Ernst Schneider.

Credit Suisse Group has also restructured the boards of its two main banking subsidiaries, Credit Suisse and Credit Suisse First Boston. Gut will be chairman of all three companies and Robert Genillard, vice chairman of the Thyssen Bornemisza Group, will be vice chairman of all three. However, in a bid to slim down the size of the parent board Jean-Daniel Comaz, Gianfranco Cotti and Erich Müller, will concentrate on their role as directors of the subsidiary Credit Suisse board. Otto Loepfe will do the same on the Credit Suisse First Boston board.

William Hall, Zurich

New head for Zaire's Gecamines

Laurent Kabila, leader of the rebel Alliance of Democratic Forces for the Liberation of Congo-Zaire, has appointed a new head of Gecamines, the state company which owns the best mining prospects in the civil war-torn country.

Mbaka Kawaya, a senior director and career technician at Gecamines will succeed Gabriel Umba Kyamitala as president director-general of the group. This follows the appointment last month of Trudon Katende Muya to head Societe Miniere de Bakwanga, Zaire's largest single diamond producer, which recently abandoned its contract with De Beers of South Africa to market its diamonds independently.

Both men will continue the process of forming joint ventures with foreign companies to exploit the extensive cobalt, copper and zinc reserves in rebel-held Shaba province and accelerate exploration for new diamond deposits.

The appointments follow the rebels' capture of Lubumbashi, Zaire's largest mining town, and Mbuji-Maya, its most important diamond trading centre, which has prompted a series of changes at its state-owned companies.

Mark Ashurst, Lubumbashi

Citizen's president to become chairman

Citizen, the Japanese watchmaker, announced that its president Michi Nakajima, will step down from his post to become chairman this summer.

Nakajima, who has served for the past 10 years as president of the company, will be succeeded, from June 27, by Hiroshi Haruta, aged 64, currently executive vice president.

Haruta, who has spent his entire career with Citizen since graduating from the department of science and engineering at Waseda University, a prestigious private university, has spent many years overseeing the company's precision machinery and information equipment divisions. His appointment as president reflects the company's growing emphasis on these new business sectors, Citizen said.

Nakajima, who is creditted with taking Citizen to the top position in the world in terms of the number of complete watches it manufactures, was also active in streamlining the company structure through the demerger of businesses into separate companies. During his tenure, three subsidiaries created through demergers have been listed.

Michiyo Nakamoto, Tokyo

Killian to head a Bell Atlantic group

One predictable consequence of the creation of Cable and Wireless Communications, through the merging of Mercury Communications with three UK-based cable television companies, has been a clutch of highly qualified senior telecoms executives seeking fresh challenges.

John F. Killian, formerly president and chief executive officer of Nynex Cablecomms, is the latest to settle his future. He has been named group president, international telecommunications, for Bell Atlantic, the new US operator formed from the merger of the Bell operating companies Bell Atlantic and Nynex.

He will be head of one of the post-merger company's five operating groups, overseeing the company's interests in fixed line services in the UK, Thailand, the Philippines and New Zealand as well as its investment in Flag (Fibre optic link around the globe) the world's longest undersea cable. Killian was head of Nynex Cablecomms since January 1, 1966. Killian will be based in New York.

"John has done an outstanding job in leading a new kind of communications company and building its marketing capabilities as well as its infrastructure," said Ivan Seidenberg, Nynex chairman and chief executive.

Alan Cane, London

ON THE MOVE

■ Patrick Low, aged 49, has been appointed director of the economic research and analysis division of the WORLD TRADE ORGANISATION secretariat. He was formely counsellor in the WTO secretariat and before that he was a senior economist at the World Bank. He takes over from Richard Blackhurst who is retiring.

■ Five senior assignments have been announced by the OFFICE OF THE US TRADE REPRESENTATIVE. Robert Cassidy and Donald Phillips become assistant US trade representatives for China and Asia and the Pacific respectively. Donald Abelson becomes chief negotiator for communications and information. Nancy Adams becomes senior trade representative at the US mission to the EU and James Murphy will be assistant US trade representative for agriculture.

■ Alexander von Ungern-Sternberg, 46, has been appointed as member of the managing board of RABOBANK INTERNATIONAL, the corporate, investment and private banking arm of the Rabobank Group.

■ David Lincoln has joined GUARDIAN INSURANCE COMPANY OF CANADA as executive vice-president and chief operating officer, reporting to president and chief executive Henry Curtis. Lincoln joins from Liberty Canada Holdings.

■ Reginald Brack, chairman of TIME will step down in July. Don Logan, its president and chief executive, will succeed Brack as chairman.

■ MOBIL CORPORATION has made appointments in its new business development and Africa - Middle East organisations. Myles Scoggins, 49, becomes group operating officer - new exploration and producing ventures. He will also have responsibility for global exploration and will chair the upstream co-ordination council which was established to maintain a global strategy and performance perspective for the company's exploration and producing activities. Jim Massey, 47, currently managing director, Mobil Producing Nigeria, will replace Scoggins as group operating officer - Africa and the Middle East. Paul Caldwell, 50, currently manager exploration and producing has been appointed managing director of Mobil Producing Nigeria, replacing Massey.

■ Michael Hogan, 37, has joined WELLS FARGO BANK to manage its mutual fund division.

■ BZW, the investment banking arm of Barclays bank, has appointed William Lloyd, 37, as a director and head of market strategy and credit research for the global markets division in North America. He joins from Credit Suisse First Boston.

■ HSBC MARKETS (Australasia) has appointed Kim Elliot as head of foreign exchange for HSBC Group's treasury and capital markets operation in Australia. He was previously with Barclays Australia.

■ GRUPO TELEVISA, the Mexican media group, has elected Emilio Azcarraga Jean as chairman of its board. Guillermo Canedo White, the former chairman, was appointed president of the executive committee.

■ MORGAN GRENFELL CAPITAL MANAGEMENT has announced the resignation of small cap fund co-manager Robert Kern. Co-managers Audrey Jones and David Baratta will continue to manage the firm's small and micro cap institutional and mutual funds that Kern also managed.

■ COMPANIA DE TELECOMMUNICATIONS DE CHILE has appointed Claudio Garcia as chairman. He replaces Oscar Carreton, who resigned.

■ Sheila Burke, executive dean at Harvard University's John F. Kennedy School of Government and former chief of staff to former Republican presidential candidate Bob Dole, has been appointed to the board of directors of WELLPOINT HEALTH NETWORKS INC, one of the US's largest publicly traded managed health-care companies. She replaces Robert Knight, president of Technology Venture Services.

■ ING GROUP said it plans to appoint Johan Stekelenberg, head of FNV, the Dutch labour federation until May 31, to its supervisory board, from September 1.

■ Al Checchi, board co-chairman of NORTHWEST AIRLINES, has resigned. Northwest said that Checchi, who is intensifying his exploration of a possible candidacy for governor of California, will continue to serve as a member of the board. The company said Gary Wilson was appointed chairman of the Northwest board.

■ Henry Racamier, 84, the former chairman of Louis Vuitton, has been appointed chairman of the board of Laurent-Perrier,the champagne house. He replaces Jean-Francois Bauer.

■ Werner Mischke, 48, has taken up office as AUDI board member for technical development. He succeeds Franz-Josef Paefgen, 50, deputy chairman of the board of management of Audi, who will assume the responsibilities of spokesman of Audi's board of management.

■ Harry Tee, chief executive of Roxboro Group and vice-president of the Federation of the Electronics Industry, the UK's trade association for the IT, electronics and communications industries, has been appointed president of the European Electronic Component Manufacturers' Association.

■ Mario Feria has been appointed GE CAPITAL SERVICES' business development director for Italy. He also has responsibility for the co-ordination of all GE Capital Services' Italian businesses, and is being appointed to the boards of Avis Fleet Services, Filea and GE Capital Factoring. Feria will also become GE Capital Services' representative on General Electric's Italy Country Council.

■ SBC WARBURG has appointed Anthony Galliers-Pratt as a managing director of its equities division in the Asia-Pacific region. He spent eight years with BZW, where he was head of Japanese equities for the past five years.

■ PIONEER STANDARD ELECTRONICS has appointed Arthur Rhein, who has served since 1993 as senior vice-president, president and chief operating officer.

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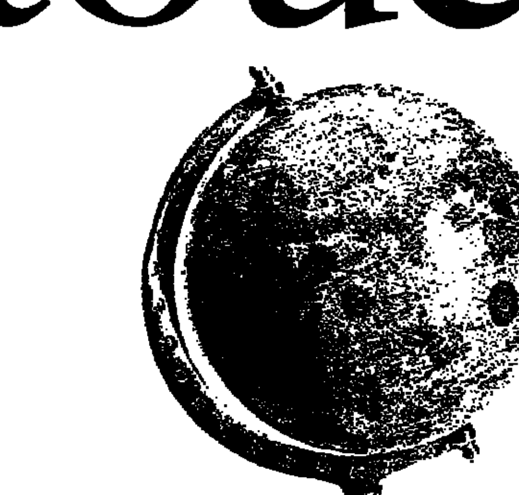

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Macao

Despite political talk of co-operation and consensus, economic concerns and crime dominate the territory's agenda ahead of the return to China in 1999, says **John Ridding**

Strains break the surface

Like the calm waters of the *Pearl River Delta that flow* around Macao, the Portuguese enclave appears to be heading smoothly towards its return to China in 1999. Present and future political masters talk of co-operation and consensus, a far cry from the Sino-British wrangles that have dogged Hong Kong's transfer of sovereignty this year.

But despite the tranquillity of its winding streets and colonial squares, strains have broken through the surface of society. Shaken by a sharp downturn in growth and structural economic challenges, Macao is struggling to recover its vitality and secure a role in the regional economy.

"The big question is how we position Macao in the next century", says Mr Edmund Ho, a prominent local businessman and a strong contender to run the administration after 1999. Whereas Hong Kong is established as a financial and services centre to help drive the mainland, Macao's role is much less clear.

More immediately, the administration is confronted by a wave of gang violence that has emerged as a challenge to the security forces and a threat to the territory's image. Diplomatic issues still need to be resolved between Lisbon and Beijing, while there is mounting pressure to prepare the post-handover government. This all adds up to an agenda of upheaval, despite the stress on continuity in the handover treaties with China.

Confronted by these pressures, Macao's leaders appear unruffled. "All in all we are confident," says Mr Jorge Rangel, secretary for administration and the acting governor. "We know these final years will naturally be very difficult, because we are fighting against time. But we can conclude our mission before December 1999 and prepare Macao for its return."

Nowhere is time shorter than in preparations for the post-handover administration. Beijing has unleashed rare criticism of the pace of localisation of top government officers. Businessmen in the territory have echoed these concerns, arguing that continuity in the civil service and the creation of a capable elite are vital for a successful transition.

Portuguese officials reject these attacks, pointing to a programme of training and promotion. "Training leaders takes a decade, but we will have enough by 1999," says one senior official.

The administration is also optimistic about the resolution of other thorny issues, notably nationality laws and how the funds of various Macao-related foundations should be managed. "Most of the big arrangements have been agreed already, in the treaties on the handover," says Mr Rangel. "We do not expect too many problems in the other areas."

But if the arrangements are largely in place, are they adequate to maintain Macao's autonomy and its way of life? Critics argue that the relatively smooth handover process reflects conciliation and a failure by the Portuguese administration to make a stand on sensitive issues. "There has not been the same fight over democracy and rights as in Hong Kong," says Mr Ng Kuok-cheung a social worker and legislator.

Portuguese officials reject such claims. "We thought it was right to make all important decisions through a permanent dialogue with China," says Mr Rangel. "We thought our strategy would be more effective," he says, referring to Britain's experience of public stand-offs and disputes with Beijing.

In practical terms, Macao's government claims its strategy has ensured continuity in institutions and gives adequate protection for rights and freedoms. "All important rights and freedoms are included in the Basic Law [China's constitution for the territory]," says Mr Nuno Calado, head of the legal translation department. The legislature will continue through the handover, unlike in Hong Kong, where a Sino-British row over democratic reforms means the existing Legislative Council will be replaced on July 1.

For Macao, and for its business community, that is reassuring. "It is important for confidence that the same people are seen to be in office," says Dr Anabela Ritchie, president of the Macao legislative assembly. "Most businessmen seem to feel comfortable about the return to China," says Mr Alberto Soares, general manager of Banco Nacional Ultramarino.

The more immediate concern for business people has been the economy. The bursting of a property bubble, fuelled by a flow of hot money from across the border, led to a severe slowdown in growth last year. GDP is estimated to have risen by less than 1 per cent, compared with 13 per cent in 1992, when the boom was at its strongest.

Mr Vitor Pessoa, secretary for economic planning, points to signs of recovery. A healthy rise in exports underpinned a trade surplus in January and February. Housing prices have stopped falling, while there are flickers of reviving demand. Growth of 3 per cent could be achieved this year, economists suggest.

But whatever the vigour of recovery, the territory faces tougher questions about the structure of its economy. Former engines of growth in light manufacturing have been stalled by the shift of industry to lower cost production sites in China. Infrastructure helped drive the economy in the 1990s, but save for an ambitious scheme to build a bridge to Hong Kong, most big projects are complete.

"We are not well balanced," says Mr Ho. "We now rely too much on tourism." He believes there is an urgent need to address Macao's role in the regional economy. "If we don't come up with something then we are in trouble. It is not as if China has a plan for us in their pocket," he says.

The government's answer has been to diversify and broaden the territory's economic base. Infrastructure projects, such as the new airport, are designed to develop service industries. Financial incentives are available to entrepreneurs seeking to upgrade manufacturing plants and may also be used to entice service sector companies from abroad. At the same time, government and entrepreneurs are investing in new tourism ventures, seeking to spread Macao's attractions beyond the casino industry.

There is potential. Macao's location provides a base for mainland operations, with labour costs of about half the level in neighbouring Hong Kong. And while the British colony wrestles with a housing crisis, Macao has 30,000 empty apartments. The decision by Hutchison Telecom to re-locate its back-up paging operations to Macao is one example of the territory's cost advantages.

Mr Eric Yeung, head of the Macao Productivity and Technology Transfer Centre and a successful entrepreneur cites several examples of companies which are upgrading their technology and shifting towards niche markets. He also sees a more consistent government approach. "Before, we had a Cha Cha administration, taking two steps forward and one step back," he says, referring to the rapid turnover of governors. "Now we have a more stable administration which understands the problems."

But the jury is still out on whether the initiatives of this administration can succeed. For this to happen, Macao must make significant strides forward in education and training and in co-ordinating its policies with southern China. The Zhuhai airport across the border is a clear example of competition, as opposed to co-operation, between Macao and the Special Economic Zone. Agreement on a proposed rail link from Guangzhou to the territory would help ease concerns.

A more pressing issue is the damage to Macao's image which has been tarnished by a wave of gang-related violence. Mr Rangel, like other officials, says the gang wars do not involve ordinary residents or tourists. They blame the shootings and bombings on turf wars, triggered by the economic downturn, the arrival of gangs from Hong Kong and Taiwan and by the chance that the gambling monopoly held by Dr Stanley Ho's STDM could be ended when the licence expires in 2001.

In response to the wave or violence, the administration is strengthening laws against organised crime and stepping up police operations. The issue has become a priority. For success in discarding Macao's sleepy reputation and building a services centre will come to little if the new image is one of lawlessness.

PROFILE Stanley Ho

A bold bet on the future

Gaming is part of a portfolio with hotels, property, shipping and television

Nobody has more riding on Macao's future than Dr Stanley Ho, the territory's uncrowned casino king and its most prominent businessman.

The gaming monopoly he has held since 1962 is Macao's single biggest business, contributing almost half of government revenues through the territory's betting tax. And that is just part of his portfolio, which extends from hotels to property, and from shipping to television.

"What becomes pretty clear very quickly when you do business in Macao is how much of this place is in Stanley's hands," says a prominent banker. Less clear is whether this concentration leaves him exposed at a time of political transition and a crime wave apparently aimed at a slice of the territory's gambling action.

Dr Ho brushes aside such concerns. "I am not only comfortable, I am confident," he says of the approaching handover. At 75, Macao's most prominent magnate has been around too long to fret about the transition.

China has too much at stake to jeopardise a successful transition, he says. And he has taken steps to secure his position and the business he has built up over the decades.

Although Dr Ho has little time for politics, describing himself as a pure merchant, he has taken care to forge ties with mainland authorities. He sits on the preparatory committee, the Beijing-backed body which is steering Hong Kong's return to China. His standing with China, say local businessmen, should buttress his business interests.

By the middle of the year, Dr Ho expects formal confirmation that his casino monopoly will be extended beyond the handover to its expiry date in 2001. After that prospects are less clear, but he cites reassurances from the head of China's de facto embassy in the territory that gambling will continue for 50 years in Macao and that the industry will be off limits to mainlanders. "Not even Hong Kong people will be allowed to get involved in the operation of Macao casinos," he says.

That does not imply that Macao will retain a monopoly on gambling, nor that Dr Ho would hold the licence if it does. But he appears reasonably confident. "Macao is a small place. If the monopoly is broken and there is strong competition then you might find that you don't provide enough tax," he says. If the monopoly is maintained, he points out, then his STDM group would be an obvious choice as its operator.

Those battles are still a few years off. Of more immediate concern is the crime wave which has shaken Macao, threatening tourism and possibly pointing to future competition for the territory's gambling spoils.

Dr Ho is clearly concerned. Part of the problem, he says, is an influx of new gangs from Hong Kong and Taiwan. While he emphasises that their turf battles have not crept inside the casinos, the risk is that the triad wars and the resulting publicity will scare off gamblers from Hong Kong and the region.

The casino king is stirred, but not shaken. "I think the government is doing their best and I have confidence in the police," he says. Citing plans for tougher laws against organised crime and co-operation from the Chinese authorities, he predicts an end to the problem. "It shouldn't be long now. Everything will be normal again very soon."

While many would question this forecast, there is room for optimism on the crowded casino floors. After falls in takings in 1995 and 1996, the first to be sustained by Dr Ho's gaming empire, there are signs of recovery. "The first three months of the year have been quite promising," he says. "We are nearing the same figures as in 1993 and 1994."

Part of the reason is an easing in the mainland credit squeeze and the resulting revival in the regional economy. Strengthened security in his casinos has also helped.

As for the coming years, Dr Ho is optimistic. Macao's new airport, he says, should secure the territory's position as a tourist destination.

While he has little time for diversification strategies designed to develop manufacturing in the territory, he believes the improved infrastructure should help broaden Macao's base as a regional centre for leisure and services.

His business interests, he insists, will remain rooted in Macao and neighbouring Hong Kong. "Where else can you find such good returns?" he asks. "I have investments elsewhere, in America, Canada and Australia, but the returns are small."

And Dr Ho still likes to think big. Referring to reports that he is shifting investments abroad, and that he might be involved in charity casinos in Canada, the Macao tycoon laughs dismissively. "Do you know that the maximum bet at those casinos is five dollars?" he says. "I think that is a little small for Stanley Ho."

With a proud grin and a detailed grasp of his gaming halls he adds: "The maximum bet in my casinos is HK$1.8m, on one flip of the cards."

John Ridding

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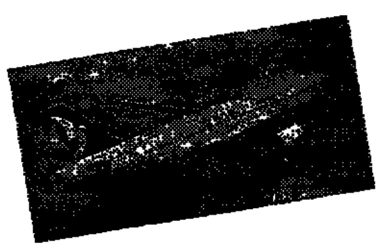

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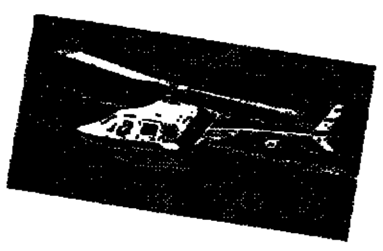

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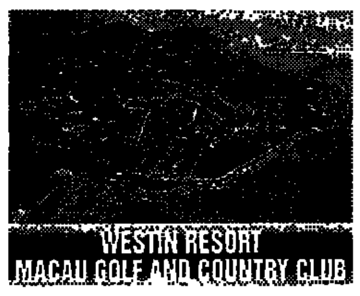

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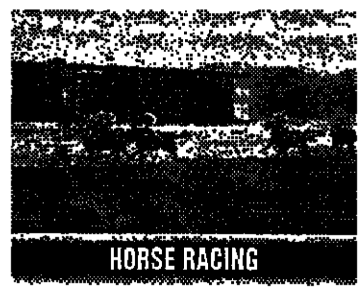

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ECONOMY • by John Ridding

Seeking signs of recovery

Official objectives for development include a more diversified services sector

Mr Vitor Pessoa, Macao's secretary for economic co-ordination, believes the worst has passed. "Since the middle of last year we have seen signs of recovery," he says, citing encouraging statistics in trade and domestic demand.

Any bright spots stand out against a dark period for the Macao economy. Growth last year was less than 1 per cent, a far cry from the double digit rates of recent memory, and the 13 per cent expansion in 1992.

This year, Mr Pessoa believes expansion of 3 per cent or 4 per cent is possible. That would be a marked improvement, but below the estimated trend growth rate of 4 per cent to 4.5 per cent, and still an ambitious prediction according to many in the private sector.

"There are some positive indicators," says Mr Alberto Soares, general manager of Banco Nacional Ultramarino in the territory. "But it is too early to read much into them," he adds, predicting another year of modest growth.

Caution is prompted by a difficult period of adjustment for the Macao economy. The growth engines of previous decades have stalled, while the territory faces structural challenges as it seeks to define its role in regional business.

Official objectives include a shift to a more diversified services sector, reduced dependence on gambling revenues, and the replacement of manufacturing businesses which have moved out of Macao. Underlying all these aims is a need to broaden the base of the economy and reverse the sharp slowdown of the past few years.

The causes for the deceleration are easy to diagnose. Completion of bold infrastructure projects, notably the territory's new airport, deprived the economy of a powerful fiscal stimulus. At the same time the bursting of a speculative bubble in the property sector prompted a collapse in the sector as spectacular as its earlier rise.

Macao experienced a frenzied period of property development in the early 1990s, fuelled to a large extent by capital from across the border. Property supply far exceeded demand, leading to price falls and a painful crunch. Mr Soares at BNU believes prices are bottoming and sees signs of rising demand in the residential sector. But about 30,000 apartments in the territory still lie empty.

The surge in the property sector underlined Macao's vulnerability to economic forces from the mainland. With the infrastructure expansion, the property surge disguised a deeper slowdown in the territory's traditional economic motors – textiles, toys and other light industrial manufactured products.

"There is still an important role for textiles," says Mr Pessoa. But he admits that the liberalisation of the market, scheduled for 2005 under international trade agreements, and the availability of low-cost sites in China, mean that traditional textile production will no longer provide a mainstay. Many toy factories have also moved across the border.

There are significant exceptions. Dr Eric Yeung, chairman of the Macao Productivity and Technology Transfer Centre, cites several examples of manufacturing companies which have moved to higher value-added production, often supplying niche markets. His own, family-controlled toy company has pursued such a strategy, as has Sing Sung, the jeans manufacturer. "There is certainly a future for manufacturing if we focus on quick response strategies and higher value added," says Dr Yeung.

Contraction in traditional manufacturing has shifted the focus of the economy to services, and to tourism in particular. Mr Pessoa estimates that tourism accounts for about one-third of GDP, compared with less than 20 per cent for manufacturing. It is a natural shift, given the broader economic forces at work, but it brings problems. The tourism sector remains narrowly-based, dominated by gambling, a relatively mature business which has attracted criminal gangs and a surge in crime.

The administration's response is to diversify both the tourism industry and the services sector as a whole. Family-oriented and cultural attractions are being developed, while there is a broader push to develop financial services and other tertiary activities.

Diversification is not a new strategy. Dr Stanley Ho, whose STDM company holds the monopoly for gambling in the territory, jokes that every Macao governor has asked for his assistance in broadening the territory's economic base. But this time, the administration believes it has more chance of success.

Investment in transport infrastructure, notably the airport, has removed an important weakness, allowing business travellers direct access to the territory without having to pass through Hong Kong. At the same time, Macao remains much cheaper than many regional business centres.

"No one imagines that we are going to be a Hong Kong," says one senior Macanese banker. "But there is no reason why we should not draw some companies in banking, insurance or other service activities." Some new business has already been drawn – two new banking licences have been awarded this year, to a Taiwanese concern and a Hong Kong-Japanese joint venture. In the telecoms sector, low costs have encouraged two Hong Kong telecoms operators to relocate parts of their paging operations to the Portuguese enclave.

Mr Pessoa cites further steps to draw new businesses. "Now that we have the infrastructure in place we need to develop our human capital," he says, pointing to increased spending on education and vocational training. The government is also examining investment incentives. At present, the territory offers the attractions of an offshore banking centre, while manufacturing companies can get tax relief on capital equipment investments. Incentives could be extended to other services areas, Mr Pessoa says. Dr Yeung says other areas that need attention include facilities for expatriates, particularly an international school.

Ultimately, however, Macao's economic prospects depend largely on forces beyond its border. Apart from the question of continued economic expansion in the southern China region, there is the challenge of co-ordinating economic strategies.

Precedents are not particularly encouraging. The construction of a state of the art airport in the neighbouring Chinese special economic zone of Zhuhai, smacks more of competition than co-operation. But Mr Pessao is optimistic. Recent visits by mainland officials have signalled moves towards greater collaboration. One project on the drawing board is a rail link from Guangzhou to Macao. Another is an ambitious bridge from Zhuhai to Hong Kong. That would tie the territory to its prosperous neighbour and bind it more firmly to regional business expansion.

Most economists are also optimistic about the economic prospects for the Pearl River Delta region which surrounds Macao. The Beijing government has successfully cooled the inflationary expansion of the early 1990s, which fuelled the flood of capital over the border.

That might have removed the prospect of spectacular growth. But after the rollercoaster ride of the past few years, Macao would probably opt for the removal of destabilising flows. As Oscar Wilde once put it: "It is better to have a steady income than to be fascinating."

■ **Total area:** 20.96 sq km (Macao Peninsula 7.49 sq km; Taipa island 5.89 sq km; Coloane Island 7.78sq km)

■ **Population:** 425,000 (estimate)

■ **Languages:** Portugese, Chinese (Cantonese)

■ **Currency:** 1 Pataca=100 Avos. Exchange rate fixed $1=8 patacas 1996 average £1=12.4725 patacas May 9 1997 £1=12.9601 patacas

Constitution

■ **Form of state**

Portuguese colonial administration until December 1999, when the territory will revert to China

■ **The executive**

Eight-member cabinet composed of the governor and seven secretaries appointed by the president of Portugal on the advice of the governor; a Consultative Committee of nominated and ex-officio members represent the interests of the Chinese community

■ **Head of state**

The president of Portugal represented by Governor General Vasco Joaquim de Rocha Vieira

■ **Legal system**

Portugese law operates; the island is part of the judicial system of Portugal although it operates its own courts of first instance

■ **National legislature**

Unicameral 23-member Legislative Assembly; seven members appointed by the governor, eight elected directly and eight indirectly; members sit for three-year terms; the assembly elects its own president

■ **National elections**

September 1996 (Legislative Assembly); next election due by September 2000

Economic summary

	1995	1996 (est)
Real GDP growth (annual % change) [1]	3.8	3.6
Inflation, (annual % change in CPI)	8.6	6.5
Unemployment rate, (%)	3.6	3.4[2]
BIS position (net year-end, $m) [3]	-2,692	n.a.
Tourist arrivals (000s)	7,752.8	8,151.1
Exports, fob ($m)	1,989	1,930
Imports, cif ($m)	2,033	1,970
Trade balance ($m)	-44	-40

Main trading partners (share of total trade to world, 1995)

[1] EIU estimates [2] Dec 1996-Feb 1997
[3] Net assets, vis-à-vis Macao, of banks reporting to the Bank for International Settlements

Travel information

• **Climate**
Subtropical and monsoonal. Winter (Nov-Apr) is cool and dry, with an average temperature of 14-23 ° C. Summer (May-Sep) is hot, humid and rainy, with an average temperature of 27 ° C. October and November are less humid. Average annual rainfall ranges from 1-2,000mm, with monsoon rains from May-October.

• **Entry requirements**
Passport: Required by all.
Visa: Transit visas (20 days) or visiting visas (90 days) may be obtained on arrival. Short stays for US, Canadian, Australian and most west European nationals are exempted. Nationals of countries without diplomatic relations with Portugal must obtain visas before arrival. Passport and visa regulations are liable to change at short notice.

• **Hotels**
It is advisable to book hotels well in advance, especially for weekends. A 10 per cent service charge and 5 per cent tax are added to the bill. It is customary to leave a small tip.

• **City transport**
Taxis: Taxis are inexpensive and readily available. Licensed, metered taxis are mostly painted black with cream-coloured tops. Radio taxis are painted yellow.
Buses: Bus services operate 0700-2400, with services between the ferry pier and the city centre and to/from Taipa and Coloane Island.

• **Public holidays**
Numerous festivals are celebrated, including the pre-Lent procession of Our Lord of Passos in April, the A Ma Festival in May, the feast of Tam Kong on Coloane Island and the procession of our Lady of Fatima in Macao and in November, the Macao Grand Prix.
Fixed dates: 1 Jan, 4 Apr (Ching Ming Festival), 25 Apr (Liberty Day), 1 May (Workers' Day), 28 May (Dragon Boat Races), 10 Jun (Cames and Portuguese Communities Day), 24 Jun (Municipal Day), 15 Aug (Assumption), 1 Oct (National Day of China), 5 Oct (Proclamation of the Portuguese Republic), 2 Nov (All Souls' Day), 1 Dec (Restoration of Portuguese Independence 1640), 8 Dec (Feast of the Immaculate Conception), 24-25 Dec (Christmas).
Variable dates: Lunar New Year's Celebration, Good Friday, Easter Monday, Dragon Boat Festival, Corpus Christi.

• **Working hours**
Business: (Mon-Fri) 0900-1300, 1500-1730; (Sat) 0900-1230.
Banking: (Mon-Fri) 0930-1600; (Sat) 0930-1230.
Shops: (Mon-Sat) 1000-1900.

Sources: EIU, World of Information

FOREIGN POLICY • by Peter Wise

Bid to bolster credibility

Portugal hopes to build on the ties and affinities created during the colonial era

As the only remaining possession in a once powerful empire, Macao represents a last chance for Portugal to bring more than 500 years of colonialism to a dignified conclusion without the trauma that marked the country's withdrawal from other overseas dominions.

"We have had so many more years to prepare the return of Macao to China than we had to handle decolonisation in Africa," says a senior official in Lisbon. "If things go badly, we have only ourselves to blame."

The leftwing military coup in Lisbon that overthrew the Salazar dictatorship in 1974 precipitated a hurried exit from Portugal's five African colonies. Angola is only now beginning to consolidate peace after two decades of civil war between rival independence movements. Mozambique suffered 16 years of guerrilla war before a peace agreement in 1992.

In Asia, Indonesia invaded East Timor in 1975 – after the Portuguese colonial administration withdrew amid civil strife – and later annexed the territory. Analysts believe the diplomatic credibility to be gained from a successful transition in Macao could add weight to Portugal's continuing efforts to secure self-determination for the East Timorese population.

More than a test of diplomacy, relinquishing Macao, the last European colony in Asia, has given Portugal pause to ponder the significance of the country's colonial history for the future of its international role.

Many of today's politicians, such as President Jorge Sampaio, were leaders of the democratic opposition to Salazar and the long colonial wars Portugal fought in Africa.

Salazar's view of the colonies as suppliers of cheap raw materials, captive markets for Portuguese exports and a source of political grandeur fuelled resistance to the dictatorship.

But the special relationships Portugal has developed in Asia, Africa and Latin America as a result of the empire that evolved from its 15th and 16th century maritime discoveries are prized today as invaluable assets that can be built on to accrue political, business and diplomatic advantages.

When he visited Macao and China in February, Mr Sampaio included many of Portugal's leading businessmen, bankers and scientists in his 180-strong delegation, reflecting an effort to establish the territory as an economic and business link between Europe and China.

The visit was the most prominent example of a new economic diplomacy through which Portugal hopes to build on the ties and affinities created during the colonial era to help Portuguese companies internationalise and meet the challenge of increasingly global markets.

Deriving influence, status and business from relationships based on a shared history was also one of the motives for setting up the Community of Portuguese-Speaking Countries (CPLP) last year, a commonwealth of the world's seven Lusophone nations aimed at improving co-operation in the pursuit of common interests.

Mr Sampaio, a Socialist elected in January 1996, acknowledges that Portugal woke up late to establishing Macao as a platform for Portuguese business in Asia.

In fact, as Mr Rogério Beltrão Coelho, a Portuguese editor and publisher in Macao, points out, Portugal has rarely derived significant economic benefits from its empire.

"Individuals have enriched themselves throughout the history of Portuguese colonialism," he says.

"But Portugal never developed anything like the East India companies that the other European empires set up. These produced lasting economic gains on a much wider scale."

Although Mr Sampaio sees business links with Asia as vital, he believes Portugal has a more important legacy to bestow on Macao in the form of humanist values, political pluralism, language, culture and the rule of law. Ensuring their long-term survival would enable Portugal to bring its colonial history to a close with a sense of achievement.

"To divest Macao of its individual identity would be to negate history and degrade a fulcrum of co-existence and understanding between cultures, peoples and traditions into a mere tourist resort somewhere off southern China for the entertainment of the rich and powerful," Mr Sampaio said in Macao.

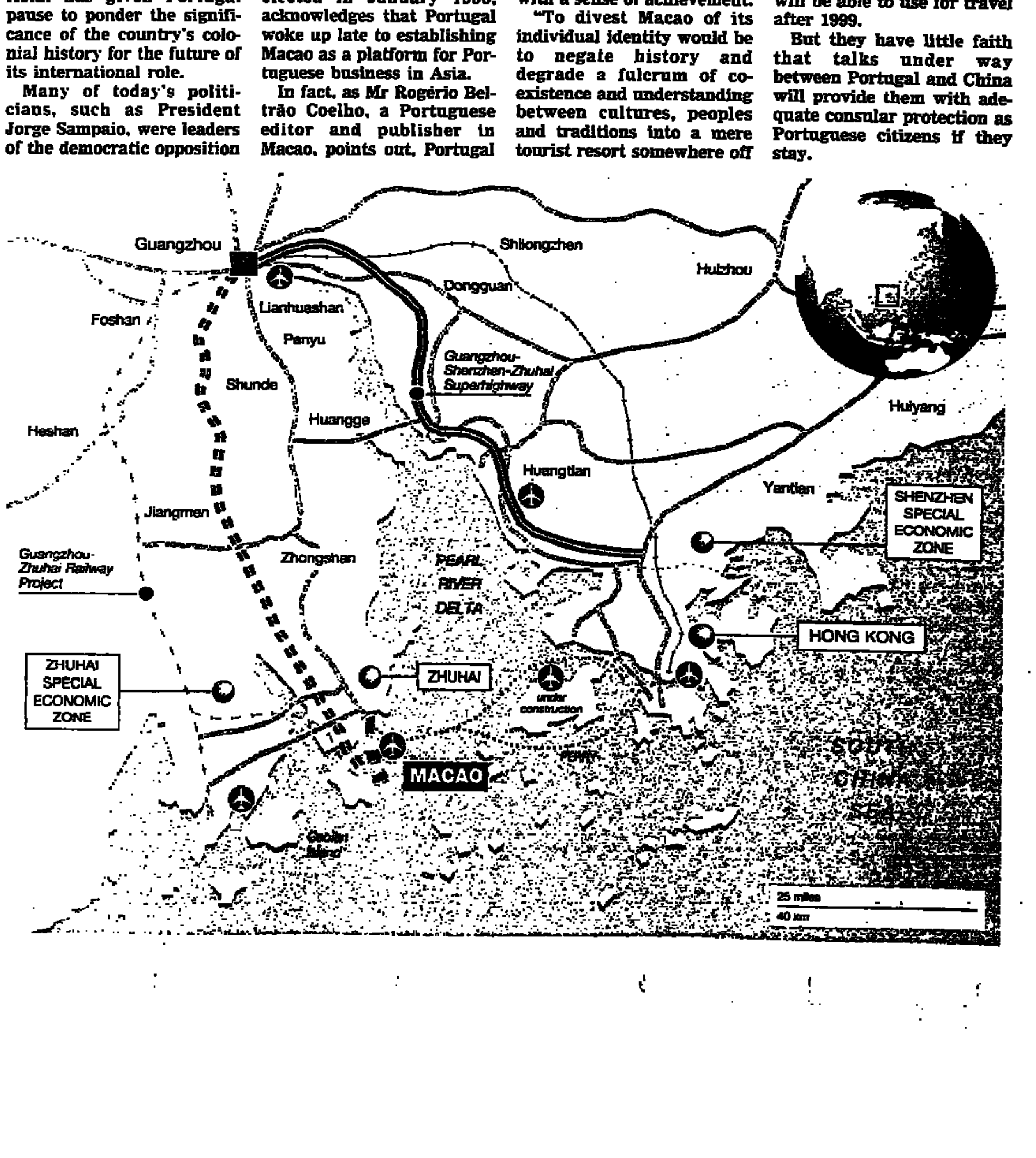
The transition in Macao, like Portugal's withdrawal from Africa, will again lead to an exodus, but not of comparable proportions. Portugal, a relatively poor country of less than 10m people, successfully absorbed about 750,000 settlers who fled destitute from Angola and Mozambique in 1975.

Almost all the Eurasian population of Macao, known as the Macanese and estimated at 3 per cent of the population of 425,000, are expected leave before China resumes control.

The Macanese and about 80,000 ethnic Chinese residents of Macao hold Portuguese passports that they will be able to use for travel after 1999.

But they have little faith that talks under way between Portugal and China will provide them with adequate consular protection as Portuguese citizens if they stay.

President Jorge Sampaio: 'Portugal never developed anything like the East India companies that the other European empires set up'



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PROPERTY • by Louise Lucas

Low prices in flat market

It is three years since the bubble burst and supply still far outstrips demand

Waiting to recover: a burst property market bubble has left the enclave with 30,000 empty units – one for every 14 citizens *Sarah Murray*

Macao, like any modern Asian city, moves to the beat of the pile-driver. But here the lofty bamboo scaffolding and billowing red, white and blue awnings proliferate across an enclave which has 30,000 empty units – or one for every 14 citizens.

"I think it's going to be a long time before the market can recover. There's simply oversupply of units. It's the old supply and demand curve," says Mr John Ho, managing director of Macao McDonald's.

It is three years since the property market bubble burst in Macao. Prices spiralled up on a rush of hot money which followed the late Deng Xiaoping, China's paramount leader, on his glory tour of the south in 1992 during which he re-ignited China's economic reform effort by urging rapid growth. Mainland money poured into the tiny enclave and, given the restricted investment opportunities, virtually all of it ended up in bricks and mortar.

The result was explosive. In six months property prices were half as much again as buyers had paid, and government architects started pencilling in more reclamation areas to feed the demand.

Before construction could start on land clawed back from the sea, the shaky foundations supporting property prices gave way. China, addressing domestic economic problems, started to tighten credit and the mainland money – much of it unapproved by the state – was reeled back in.

Luxury flats, which at the peak cost about HK$3,000 per sq ft, were soon being sold for half that. The price tag on more modest flats was slashed from HK$1,800 to HK$1,000 per sq ft. Mass housing now sells for as low as HK$500 a sq ft, down from more than HK$1,200 at the peak.

But even at these prices, supply far outstrips demand and even bankers and businessmen occasionally resort to flippancy on possible solutions. "People will have to work harder having more babies," says one. Another suggests Hong Kong residents could buy holiday homes.

Others grumble that the government – whose non-interventionist free market stance is generally welcomed – has failed to provide a solution, for example by easing restrictions on imported labour.

While this generally refers to cheaper labour from mainland China and the Philippines, one possible salvation is the entry of Hong Kong companies moving to cheaper environs across the water.

So far only one big company has taken this step – Hutchison Whampoa, the Hong Kong conglomerate that is controlled by Mr Li Ka-shing, one of the wealthiest and canniest tycoons in the region, is setting up back-up paging operations in the enclave.

Macao businessmen say more Hong Kong and Singapore companies have signalled their intention to follow suit and that this trend, combined with the low prices, could boost the market.

Mainland money is also trickling back in and even today, between half and three-quarters of the property market is estimated to be in mainland hands.

"Prices cannot get any lower, and we are seeing signs of mainland Chinese money coming in," says Mr Peter Lam, whose construction company is again buying plots.

His confidence is not shared by all. "I think that this problem cannot be solved in the short term," says Mr Jose Cheong, president of Far East International Group. "Investment from China and Hong Kong can take some of the residential units, but for the commercial and industrial space it's a big problem. We don't have enough buyers for the market," he says.

The dearth of HK money is attributed to complex laws on buying real estate, but some believe that the handover in Hong Kong – where China resumes sovereignty in July, two and a half years before Macao is returned – could trigger investments from the territory.

Here again, government assistance is being sought to ease the way for potential buyers.

Construction: Completed buildings

	1993		1994		1995	
	000 m²	% change	000 m²	% change	000 m²	% change
Total floor space	1,427	[illegible]	1,141	-20.1	1,221	7.0
Housing	0.932	19.5	0.579	-37.9	0.563	-2.6
Retail outlets and offices	0.259	[illegible]	0.327	26.2	0.398	21.8
Industry	0.039	-38.0	0.063	61.3	0.037	-40.0
No of separate units (000s)	[illegible]	[illegible]	9,553	-39.0	9,432	-1.3
Housing (000s)	13, 665	23.9	7,443	-45.5	6,030	-19.0
Other (000s)	[illegible]	[illegible]	2,110	5.3	3,402	61.2

Source: G29

THE FUNDAÇAO ORIENTE • by Peter Wise

Dogged by contention

For several years controversy has overshadowed the real business of the organisation

For a philanthropic foundation set up to "foster historical and cultural links" between Portugal and Asia, especially China and Macao, the Fundação Oriente has provoked an unusual degree of political controversy and diplomatic discord.

Opponents in Macao have called it "a notorious example of a western power seizing resources from a developing Asian country". China and Portugal have been discussing its future for six years, often acrimoniously, and are only now nearing agreement.

In Portugal the foundation, with assets worth about Es40bn, has been a source of mutual recrimination between the two main political parties. Mr Carlos Monjardino, its chairman and a former governor of Macao, has fought and won three libel suits against detractors and is pursuing another three.

Controversy was perhaps inevitable for a Portuguese foundation with its headquarters in Lisbon funded from the revenues of Macao's monopoly gambling concession – held by Dr Stanley Ho, the Asian entrepreneur – in an arrangement written into the gaming contract only a few months before Portugal agreed in March 1987 to return Macao to China in 1999.

For several years, political contention has overshadowed the real business of the foundation – cultural and social activities ranging from providing support for flood victims in southern China to helping fund the Macao Ping-Pong Association's world championship bid.

The foundation believes controversy will subside after an agreement between China and Portugal due to be concluded within three months which switches the funding to a new foundation with identical objectives. This will be based in Macao, but the Fundação Oriente will be allowed to go on working in Macao and China indefinitely.

The Fundação Oriente originated from a long-held wish by Dr Ho to set up a charitable fund. Mr Monjardino, negotiating the concession as acting governor in 1986, suggested a cultural foundation as a more suitable alternative.

A philanthropic foundation set up by one of Portugal's earlier benefactors, Calouste Gulbenkian, was chosen as a model for the statutes. The late Armenian millionaire, known as Mr Five Per Cent for his share of the earnings of several oil wells, set up the Gulbenkian Foundation in Lisbon in gratitude for the shelter Portugal gave him during the second world war. It is now one of the biggest cultural foundations in the world.

For different reasons Dr Ho could lay claim to the same sobriquet. Five per cent is the amount of net gambling revenue he wrote into the terms of the gaming concession, which expires in 2001, to be set aside for the Fundação Oriente. Portugal was happy to agree. For accounting purposes, the 5 per cent was later adjusted to the roughly equivalent amount of 1.6 per cent of gross revenue.

Controversy arose in Portugal when figures linked to the centre-right Social Democrats insinuated that the foundation was using its resources in favour of the centre-left Socialists. Mr Monjardino, who acknowledges that he is close to the Socialists although not a party member, says sniping was motivated by attempts to establish political control over a relatively wealthy organisation.

But the foundation, he says, has resisted all attempts at political manipulation. He has the accounts audited by Price Waterhouse every six months and publishes the details of every activity that it provides support for – about 600 a year.

Wrangling in Portugal undermined the standing of the foundation when its status was being questioned by China. A high-profile dispute gradually developed over what Portugal's President Jorge Sampaio says is a secondary issue in the handover negotiations that could be rapidly resolved.

The main issue was that the Fundação Oriente is funded from revenues originating in Macao but is a Portuguese entity over whose assets China will have no control. A Macao newspaper said this was an "example of privatisation of public resources based on the already outdated principles of colonialism".

Mr Monjardino rejects this as fallacious. "Dr Ho wanted the financing of the foundation to be included in the gaming contract," he says. "If Portugal had said 'no', the money would have simply remained in his company." In addition, 65 to 70 per cent of foundation's subsidies, which total US$10m to US$15m a year, go to Macao and China.

Under the new agreement, Dr Ho will finance a new Macao-based foundation, not yet given a name, on exactly the same terms. He is also expected to reach a private arrangement to continue providing some finance for the Fundação Oriente at least until 2001, after which its income will come mainly from the investment of capital.

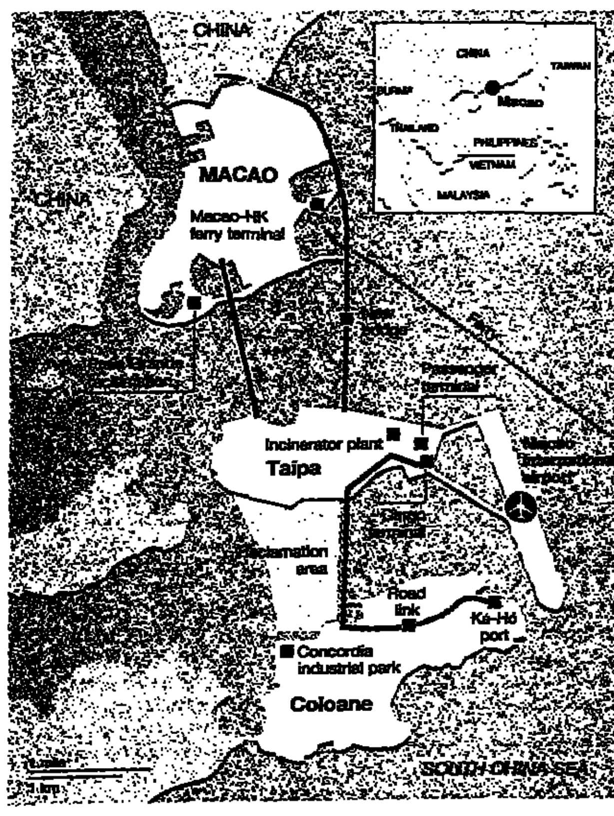
Partly as compensation for the loss of its main source of finance, Beijing will permit the Fundação Oriente to continue operating in Macao and China after 1999.

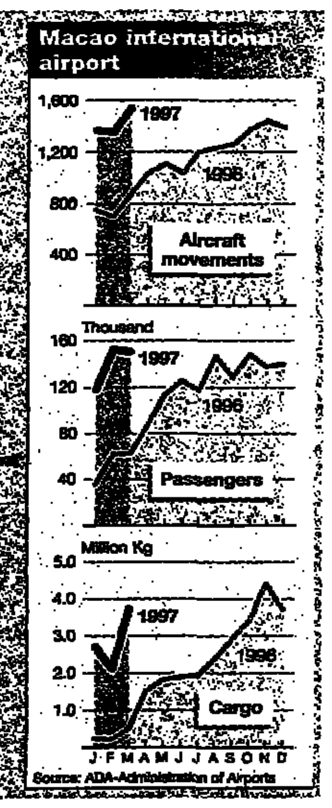
"This is the point we insisted on and the reason it took so long to reach an agreement," says Mr Monjardino. "Working in Macao and China is what the foundation was created for."

INFRASTRUCTURE • by Louise Lucas

Benefits yet to emerge

Funds are being ploughed into infrastructure in the hope of prompting growth





Source: ADA-Administration of Airports

At 3pm Macao's new US$12.1bn airport boasts more cleaners than passengers. The gloomy business lounge is deserted and the X-ray conveyor belts are switched off.

A short drive away lies a barren swathe of churned land, the site of a grand property and reclamation scheme incorporating – on paper at least – two artificial lakes flanking roads, office blocks, hotels and homes. The reality of the Nam Van Lakes is altogether more modest – although, property glut notwithstanding, construction is under way.

A mixture of government and private funds is being ploughed into infrastructure in the belief that it can provide a platform for economic growth by bringing in more investment, tourists and businessmen.

It has had some impact. "Already from the infrastructure point of view, Macao has improved dramatically," says Mr Bruno Simeoni, general manager at the Westin Resort. "There's a new stadium, pier, Jockey Club. At the same time old buildings have been repaired, retaining their charm and making the town quite attractive – and you can remember this was the first place east met west."

Preliminary proposals have been put forward by a consortium of local businessmen for a HK$13bn 37.9km bridge linking Macao to Hong Kong to be financed by the private sector.

But some of the high-spending projects have raised eyebrows, and hoteliers and others remain sceptical about the benefits.

The airport, developed on the build-operate-transfer model and managed by the Portugese-Chinese Administration of Airports, has enjoyed mixed fortunes. Last year – its first full year of operation – it processed 1.3m passengers. Officials expect 1.8m this year. There was just 25,000 tonnes of cargo, however, compared with a forecast of 40,000 tonnes.

Government officials plead the airport's infancy in its defence, and say that as more flight agreements are signed, the airport will bring to the enclave high-spending Japanese and Americans who will reinforce Macao's place on the tourist map.

But hoteliers at the more expensive resorts are not convinced. Mr Simeoni points to the predominance of Taiwanese transit passengers. "Although the airport is connected to Singapore, Bangkok and Kuala Lumpur, still the traffic is not there."

There are also concerns that if Zhuhai domestic airport across the border in China was opened to international flights, Macao – already in competition with Hong Kong – could see traffic further eroded. Zhuhai already poses infrastructure threats to Macao, as Mr Edmund Ho, vice-president of Macao legislative assembly, says: "Zhuhai does not intend to put Macao as a competitor, but in reality both are looking for the same things."

These are fears rebutted by the aviation authorities. They may have been slow to press certain advantages home – such as lower charges than Hong Kong – but they hope to attract passengers by offering a faster clearance time and one-hour link to central Hong Kong.

Plans to speed passengers to the jetfoil terminal for the ferry journey to Hong Kong, while managing their baggage, were dented, however, by Hong Kong's refusal to sanction one set of passport procedures. Plans for a jetfoil terminal at the airport are awaiting approval from the Macao government and Beijing.

It is also hoped to entice carriers from Hong Kong, where the difficulty – at least until next spring when Hong Kong's new airport opens – is obtaining sufficient slots at the heavily congested Kai Tak airport.

According to Mr Antonio Rato, chief executive officer for Macao's Administration of Airport, airport charges are 10 to 20 per cent cheaper than Hong Kong's Kai Tak, assuming similar frequencies. But Macao, stretching the definition of free market principles, is eager to go a step further and press private bodies operating at the airport to lower their charges to airlines.

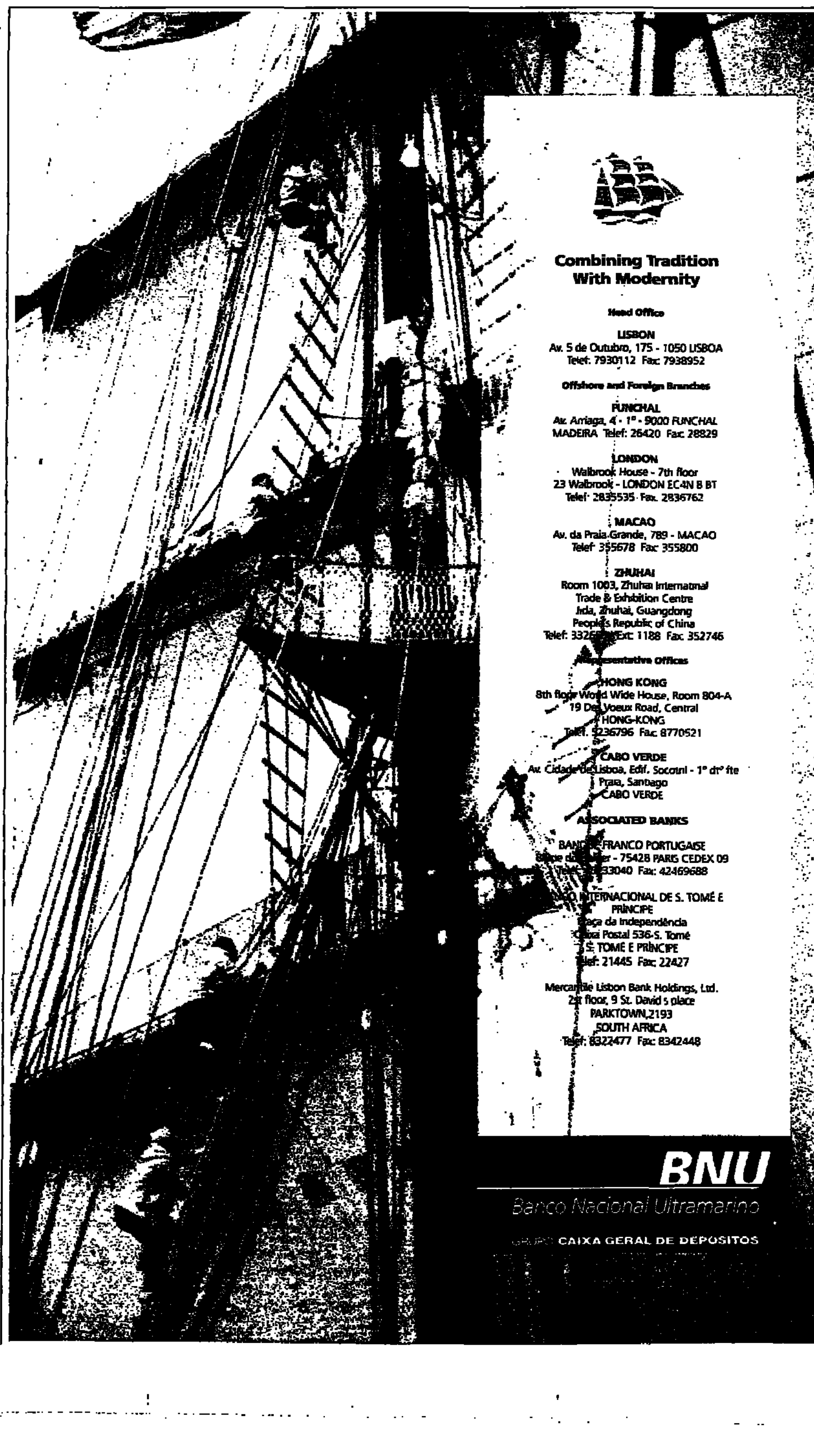
"We have some ability to press them to lower the prices or to negotiate, but as private entities they are on their own. We consider some of the prices are higher than desired, and that's why we are working now to see how we can lower costs without harming the companies," says Mr Queiroz.

"As a start-up airport we need to emphasise to the suppliers that they probably have to operate at a loss at the start to have a profit at the end." Government subsidies, if tolerated by the industry at a global level, have not been ruled out.

Macao is also trying to improve its status for cargo – a priority issue for Mr Queiroz. "We are utilising the port in conjunction with the airport so some of the cargo comes by boat and is transferred to the aeroplanes, and vice versa."

One boon to the cargo trade will be the mooted rail link joining Macao to Zhuhai and, from there, Guangzhou. The plan is under preliminary discussion with China. Macao reckons its relatively cordial relations with Beijing will help accelerate the project.

Macao is trying to persuade multinationals, electronics companies and the commodities industry to move raw materials through the airport to Macao, where they would be assembled and re-exported. "We want to be part of this assembly trade," says Mr Queiroz.



CULTURAL HERITAGE • by Carla Rapoport

Putting money into mortar

Historic buildings are being given a facelift as the territory acts to preserve its past

A Chinese tiled roof on top of Greek columns, an art deco window in a Mandarin's house, a block of Moorish barracks and the first European theatre stage in China – these are just a handful of the historical treasures to have survived Macao's recent economic development.

Neighbouring Hong Kong has destroyed most of its colonial buildings, but in Macao, those willing to jump out of the taxi and explore the place will discover one of the most charming collections of European churches, secular buildings and plazas, to be found anywhere in Asia.

Macao is gambling on the fact that this heritage will be a valuable part of its future. "We have no beaches, no raw materials, very little space, nothing," says Mr Carlos Moreno, architect and technical adviser for the new Macao Museum. "But we have one thing of value – 400 years of history."

In the past five years, a policy of neglect toward Macao's historical buildings has been reversed and today, almost 50 per cent of its outstanding old buildings have been restored, compared to just 5 per cent of Hong Kong's former treasures.

"In this area of China," says Mr Moreno, "the only target is economic development. The only god is money. If growth is 10 per cent a year, they are happy. But this is wrong. You can't have economic growth without cultural growth. A society cannot rise to a new level without culture. You cannot insure the future without preserving the past."

Cherry Barnett, Hong Kong-based writer and lecturer on art and architecture, has been visiting Macao since 1975. "It's a miracle, really, that suddenly, Macao took action. Ten years ago, you would have the impression that whole areas of Macao were simply going to crumble. But most didn't. The danger for Macao was that, with the resumption of Chinese control, it would simply be subsumed into Zhuhai over the border. Now, everyone here is united in believing that preserving Macao's heritage is its protection," she says.

Thus, with only a few years to go before Portuguese rule ends, the Macao government has spent some HK$370m on restoring old buildings, plazas and churches and is currently spending double that amount on building a new museum for the city which Mr Moreno says will serve as the new "soul" of Macao.

Placed between the celebrated 17th century facade of St Pauls and the Citadel of Sao Paulo do Monte, the new museum expects to welcome 8m visitors a year when it opens next year.

At all stages of the restoration process, the Macao authorities have involved Chinese officials and the work is not only concentrated on western influenced buildings. Examples are the beautifully-maintained formal Chinese Garden of Lou Lim Ieoc, an elegant evocation of another age of Chinese history and the houses on Happiness Street, built in the 1850s for courtesans, which have been restored with fire-engine red paint and new grill-work.

Mr Moreno and his colleagues are betting that the restorations and the new museum will pull in revenue from tourists needed to supplement dollars spent by the thousands of gamblers who pour into Macao every day.

Indeed, the gamblers' money is already helping to preserve Macao's heritage through a special tax which goes directly to the Fundação Oriente, a Portuguese organisation aimed at preserving overseas Portuguese culture.

It was the foundation's money, for example, that restored the Dom Pedro V Theatre, an 1860s classical building which evokes the Pantheon in Rome with its distinctive circle-within-a-square construction. Once a thriving theatre which hosted Benjamin Britten and troupes of Italian Opera, the theatre had fallen into disrepair.

Restored by the Fundação Oriente – down to its lime and cream colour scheme – it is now one of Macao's hidden jewels, tucked away on the western side of the island and not even listed on most tourists maps.

Despite the money being poured into Macao's past, the city does not have a central historical district like those of many European cities. In fact, with large-scale land reclamation works going on and numerous skyscrapers being put up, it is possible to see the city as simply a smaller version of Hong Kong.

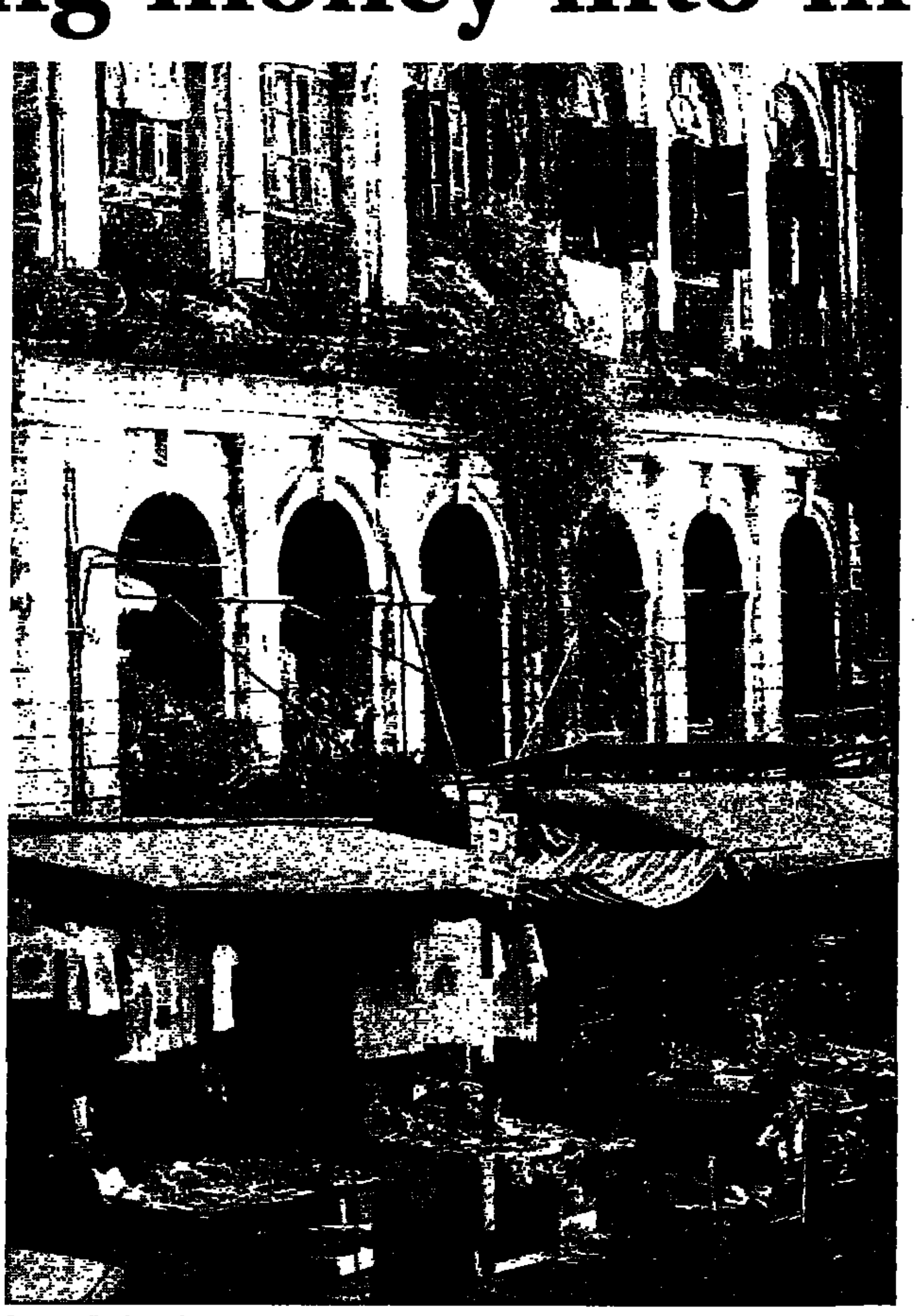
Those interested in visiting the hidden treasures of Macao are advised to travel on foot. The most noteworthy restoration work, according to Mrs Barnett, is the stone paving in traditional wave designs found in the various squares around Macao. The most striking of these is Largo do Senado, the pedestrian square in front of the Leal Senado or Municipal Council, one of the oldest democratic institutions of modern times.

Made with mosaic tiles imported from Portugal, the beautifully paved open space is now the home of restaurants, shops and open-air entertainments.

The imposing Senado itself, once a dusty, neglected building where locals paid their water bills, has been restored to its former glory with exhibition halls, gardens and banqueting halls.

Work on another project – restoration of the 17th century baroque-style St Domingo's Church in the heart of the city – will be finished this year.

Sadly, after the handover, the 19th century Bela Vista hotel, a beautifully restored, terraced colonial confection perched above the sea, will be turned into a Portuguese consulate building. The deadline for a meal or a room at the Bela Vista is 1999, but situated high above the road, its facade will be able to be admired for years to come.



Street stalls cluster in front of a colonial Portuguese facade: Macao has one of the most charming collections of European buildings to be found in Asia Sarah Murray

TOURISM • by Louise Lucas

Too often in transit

Visitors spend barely more than one day, and their outlay during that time is decreasing

In Macao as elsewhere, the more things change the more they stay the same. Today's visitors may disembark from high-speed ferries and head for the gaming tables – rather than dock in great cargo ships and go ashore for supplies, as they did in the past – but the theme is the same: people stop off in Macao, they do not stay.

"People never stay long," says Ms Virginia Trigo, president of the enclave's Tourism Education and Training Institute. "The strong point of Macao is that is serves as a platform, and you don't stay a long time on a platform. This is what has happened in Macao since it was set up in the 16th century."

Some say this is the crux of the problem facing the enclave's tourism industry. On average visitors stay barely more than one day. Their average spending during that time is decreasing rather than growing and the sector is overly reliant on gambling to woo tourists.

Mr Jose Cheong, president of Far East International Group, says: "So we have 7m plus visitors a year – 8.1m last year – but don't have enough tourism and services activities for these visitors."

For Macao, these problems are magnified by the importance of tourism to the economy. According to Mr Salavessa da Costa, secretary for communication, tourism and culture, tourism accounts for nearly half Macao's GDP. Last year's estimated income from tourism activities totaled HK$27.7bn, with HK$15.5bn coming from gambling and and the remaining HK$12.2bn from tourism expenses.

"We rely too much on tourism," says Mr Edmund Ho, vice-president of the Macao Legislative Assembly. Mr Cheong adds that part of the focus on tourism is because it is the only sustainable contributor to economy: industry always looks for seeks the cheapest base and property in a downturn.

To tackle the over-reliance on tourism, which is itself heavily linked to gambling, a number of initiatives are under way. By way of diversification, and encouraging longer stays, hotels and landlords of gleaming new tower blocks are trying to foster conference and exhibition trade.

A 16-hectare marine theme park, complete with shops and eateries, is planned to come on stream before the handover in December 1999, courtesy of a consortium headed by Far East International Group.

More shops are planned to attract tourist dollars. Tourism services are being brushed up, not least at the new Tourism Institute presided over by Ms Trigo, where nervous youngsters combine theory with hands-on experience in the restaurant and hotel annexe.

Another stimulant is the new airport, which Mr da Costa credits with turning Macao into a final destination rather than an adjunct to Hong Kong.

But for those making their living out of the tourist trade – one-third of the active population – the new airport is a mixed blessing. The touted international traffic promised by the airport has not yet materialised, instead Macao has been deluged by Taiwanese stopping off en route for China and with no intention of blowing their holiday budgets in the enclave.

"We have a lot of traffic from Taiwan now," says Mr da Costa, "but Macao airport is only one year old. We will probably soon get flights with Australia, the Philippines and the US."

Unfortunately for Macao, all this is coming on stream at the same time as a spate of gang warfare, which has claimed several lives and is starting to frighten prospective visitors to the enclave.

"January has been our worst month. I don't know why. It could be the result of all these activities in town related to gambling but it's very difficult to pinpoint," says Mr Bruno Simeoni, general manager of the Westin Resort.

Mr da Costa says Macao remains a safe place for nearly all citizens and visitors: "Until now we have been able to say that Macao is a safe place. But, yes, we have some problems among the triads – but this is among triads. We cannot hide that kind of thing. Triad activity is a cultural matter, not just in Macao but throughout the Far East."

In addition to crime, there are concerns that visitors from Hong Kong, the biggest source of Macao's tourists – accounting for 63 per cent last year, down from 80 per cent in previous years – could dry up over the traditionally strong months of July and August following China's resumption of sovereignty over the territory in July. "Hong Kong to a certain extent is fine up to the end of June, but then Macao will be affected by the overall atmosphere in the territory after July 1," says Mr Simeoni.

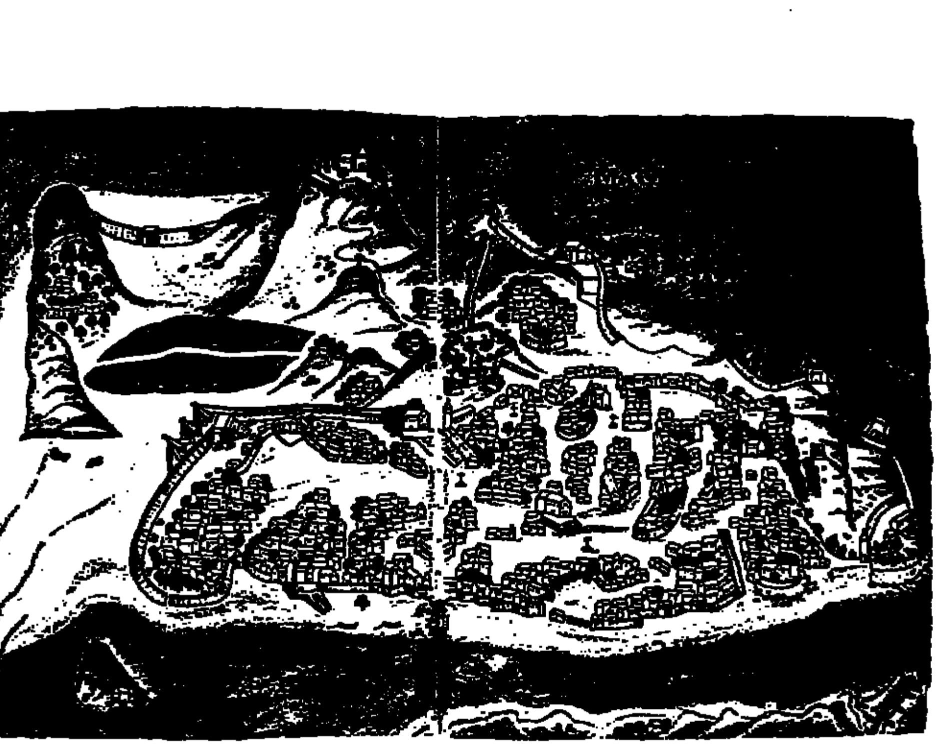
Any apprehension in the territory could see citizens delaying or scrapping holiday plans. Other professionals in the industry have low expectations for Hong Kong tourist volumes in these months. "Hong Kong business is an unknown entity," says a hotelier.

While concerns across the water could strike at some of the more high-spending visitors, the biggest growth is in Taiwanese tourists – many of whom are using Macao as an indirect means of travelling to China, where direct links with Taiwan are banned.

Hoteliers grumble that it is because of this new category of travellers, which account for two thirds of the airport's commercial arrivals, that their receipts were down last year.

"The airport is providing additional business to the enclave," says Mr Simeoni. "However, the type of business is low yield from Taipei.

"Occupancy for low-rate hotels is going up – but rates can be just HK$276 a night," he says.



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PROFILE **Perfekta Toys**

Progress up the scale

A shift to more upmarket goods and more flexible production has secured success

In the boardroom at the Macao head office of Perfekta Toys stands a cabinet representing the past. It is filled with garish plastic monsters and a model of R2D2, the robot from *Star Wars*, recalling Macao's heady days as one of the world's biggest suppliers of mass-produced toys.

On the opposite wall stands a cabinet filled with current products. Among them is a carefully crafted Formula One racing car with about 200 parts and a price tag of US$200. Beside it stands a model locomotive which, with its wagons, would set you back about US$4,000.

Dr Eric Yeung, managing director, says the contrasting displays are part of a broader transformation facing Macao manufacturing. He believes that with cheaper production sites across the border in China and rising regional competition in Macao's traditional industries of textiles and toys, survival requires a shift to higher value added products and more flexible production.

As chairman of the Macao Productivity and Technology Transfer Centre, Dr Yeung believes change is under way. "There is a bunch of younger entrepreneurs with new ideas and new strategies," he says.

His own company has upgraded production in its core toy business and diversified into other areas, from respirators to electronics. A joint venture with a Chinese technical college is helping to develop business on the mainland and provide expertise that is in short supply in Macao.

Behind the strategy lies an emphasis on speed, flexibility and exploiting the comparative business advantages of Macao and the mainland. Assembly lines at the Macao factory are changed three or four times a day. Switching painting operations from one colour to another used to take two hours. It now takes 10 minutes.

While China is cheaper – with labour costs about half those in Macao – Dr Yeung says there are advantages in keeping production in the Portuguese enclave. "If I pick up the phone and order components from a supplier in Korea then I will be able to start by mid-day tomorrow," he says. "That is because of the airport and Macao's free port status. In China it could take five days and you would have to pay import duty."

Similarly, the Macao operations provide design and marketing knowhow. An early power meter supplied by a Chinese joint venture partner is "as ugly as hell", in Dr Yeung's words. The new version has a more sophisticated and appealing design.

What China does supply, apart from its vast market and a base for more labour-intensive production, is technical engineers. The Tsinghua-Perfekta development centre in Perfekta's Macao factory is staffed partly by engineers from Beijing's Tsinghua university. Experience in Macao exposes the mainland engineers to the corporate culture of Perfekta which, says Dr Yeung, gets "rough diamonds we can polish".

Just as Perfekta has diversified – and Dr Yeung has plans for glass fibre and moulding operations – so its boss sees signs of activity in higher end textiles and electronics businesses. "Hopefully we will show that manufacturing in Macao is not as sleepy as some people think," he says.

John Ridding

هكذا من الأصل

ARTS

Light in the west

William Packer reviews the latest work inspired by the Cornish landscape

The new Tate Gallery at St Ives was always intended to collaborate actively with the community of artists and galleries in the west of Cornwall, and with the local community at large. Now four years on, *A Quality of Light* is the first real essay in developing this principle on a broader scale.

In the event, the Tate is not instigator but partner in it, albeit the largest partner and its natural focus. The project falls under the aegis of St Ives International, "a new charitable company" set up specifically "to devise and co-ordinate collaborative art initiatives in Cornwall." An invitation was extended to 14 artists, all but one of them from outside the county, to work on the theme of light, in deference to the distinctive quality of light supposedly peculiar to St Ives and Penwith, washed clear and bright by Atlantic rains, scrubbed by the winds, sparkling off the water. It is a nonsense really, for light is but light, darker or brighter as may be, and the art with it.

But a mild scepticism about the premise need not vitiate the exercise as a whole. These artists have come down to Cornwall, found suitable sites in which to set their work, and then got on it more or less as usual. Some use light as an actual element in the work, one uses fire, one sears out the image with a magnifying-glass, others just paint or make sculpture. Taken turn by turn as individual contributions, most are interesting enough and justifiable, one or two rather more so.

All the preparatory material is shown together at Newlyn, along with a large installation by Mona Hatoum, which has bulbs strung around a large open wooden structure that flick on and off with a rising degree of intensity to the accompaniment of an intrusive electronic squeal. This "Current Disturbance" is openly aggressive, the aural element rather overwhelming the visual, which in the circumstances seems somewhat perverse.

The Tate too is showing several of the artists, with some of the personal displays augmented by works from the collection – Roger Ackling with a pot by Bernard Leach; James Hugonin a Hepworth sculpture; Carol Robertson an abstract Nicholson relief. These shows work well enough – Ackling's particularly so since his set of sun-drawings looks down directly upon Porthmeor Beach where, hour by hour, they were made – but the real point is made far away from the galleries.

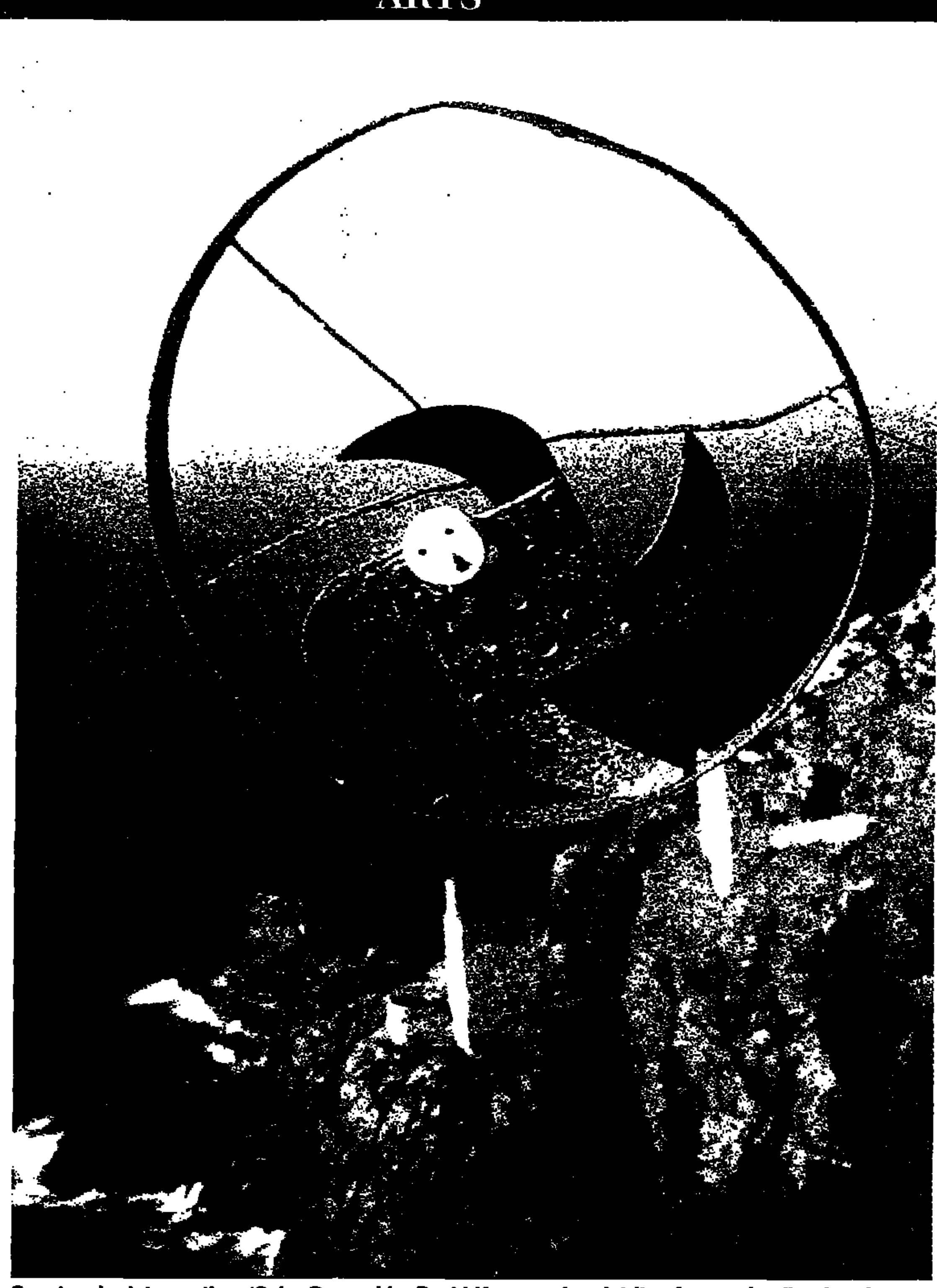
Peter Freeman has put a neon image of a light bulb high on the end wall of Penzance Station, and two simpler neon pieces within the small stone huts on the platforms at St Erth. In the disused Eastern House at Porthcurno, Paul Ramirez Jonas analyses the landscape image by computer and broadcasts it on the Internet. Carol Robertson's cool yellow circles hang quietly in a corner of the parish church. James Hugonin puts two small abstract "Lindisfarne" paintings into the island chapel of St Nicholas, high above the sea. Roger Ackling puts a single driftwood sun-drawing into the seamen's chapel of St Leonard beside the harbour.

But the more spectacular interventions are far away to the west, in the glorious desolation above Cape Cornwall. In the Count House of the long derelict tin-mining complex at Botallack, David Kemp has contrived out of the immediate industrial detritus a museum to a long-lost civilisation – solar wheels, celestial chariots, masks and helmets. "Here, at the very edge of the western promontory, unable to pursue their divinity across the night sea, the charioteers were halted." It is a most engaging, poignant spoof.

And at the Geevor Mine at Pendeen, only decommissioned in 1990, Glen Onwin has taken over the one working shed which was cleared of its machinery before the site as a whole was preserved. At least the foundations for the old beds remained, upon which the ore was washed by a gravity process down a succession of terraces. Within them he has contrived a series of pools, black, at the top level, for the coal, and so on down the slope, white for china clay, indian red for tin ore, and yellow for ochre earth. In each pool sits a lump of local quartz. Two assistants move steadily between the pools, stirring the sediment into suspension, anointing the rocks.

Onwin has long dealt with ideas of geology and metallurgy, alchemy and transmutation, and this is as impressive, resonant and ambiguous a work as any he has made. He calls it "Blood of the Pelican", the Pelican that was supposed to feed its young on its own flesh, the Pelican that was the smelting mark for the true tin of Geevor.

A Quality of Light: The Tate at St Ives, and at other sites in the Penwith Peninsula, until July 27. Organised by St Ives International in collaboration with Falmouth College of Arts, the Institute of International Visual Arts, Newlyn Art Gallery, South West Arts and Tate Gallery St Ives; also supported a number of public, corporate and commercial institutions, charitable trusts and foundations, and private individuals.



Spectacular intervention: 'Solar Dancer' by David Kemp, using detritus from a derelict tin-mine

Recital/**Andrew Clark**

Shadow of his former self

It was a matter of debate what Luciano Pavarotti was doing at Covent Garden on Sunday afternoon. With eyes closed and arms anchored to the piano, he could hardly claim to be communing with an audience. The voice sounded unflinchingly tight and there were few reminders of the glory days, when he could pick up a trivial song and make something of it. So why had the not-so-fat man from Modena slotted a London recital into his schedule at barely a month's notice? And why had 2,100 people paid up to £140 to hear him give less than his best?

Pavarotti was apparently keen to appear at the Royal Opera House before its redevelopment. As he reminded us before "Che gelida manina", the ROH is where he established his international career in 1963, singing that very aria. With only three fleeting visits in the past 10 years, however, his professions of affection do not exactly ring true. Given the cautious, disengaged quality of this recital, it is hard to imagine him returning after the ROH re-opens. This may well have been his last UK performance.

We had gathered to hear the voice and pay homage to the legend. As Pavarotti grows older – he will be 62 in October – the legend becomes harder to sustain. An opera house recital should be the ideal platform for Pavarotti's extraordinary gift: no arena-style ballyhoo, no amplification, no pretence at acting, no one else sharing the bill. Just the voice, the handkerchief and the instinctive musical taste. He sang a clutch of old favourites: some Italian art songs, two Puccini arias, a glimpse of Donizetti's Nemorino and a selection of musical postcards from Naples.

By the end, I felt I would have been better at home, listening to recordings and savouring memories of his heyday. Perhaps Pavarotti has overdosed on arena-style concerts: he seemed disinclined to make his audience work. Or perhaps he wanted to remind us he is more than just an entertainer. If so, he should engage a less perfunctory accompanist than Leone Magiera.

Beethoven's "In questa tomba oscura", framed by less-than-joyous songs by Bononcini and Alessandro Scarlatti, made for a cold, sepulchral opening: voice production was effortful, trills amounting to little more than a head-shake. The same inflexible phrasing, the same careful husbanding of resources, characterised his group of sacred songs. There was little sense of line in Schubert's "Ave Maria"; much of Guida's "O Jesu dolcissime" was flat. Even in "Recondita armonia" from *Tosca*, Pavarotti refused to come out of his trance.

An extended interval brought forth greater fluidity, if not more charm. The melting sostenutos of "Luna d'estate" demonstrated how perfectly Pavarotti's bright timbre and crisp diction match Tosti's serenade-like idiom; "Malia" even saw some of the old vigour. After a curiously deadpan "Una furtiva lagrima", the sense of relief was palpable as we entered the home stretch. With his final Tosti group the voice took flight, the top notes ringing out with the buoyancy and freedom which were once his trademark.

Five encores, including two arias from *Rigoletto*, found some sparks among the embers – but there was no standing ovation. That should give Pavarotti pause for thought. He says he will sing for as long as he feels he is singing well. Let him continue his charity and crossover stunts, but he should bow out now from the serious stuff; as this recital demonstrated, the problem with being at the top is that there is only one way to go.

Theatre/**Sam Albasini**

Growing up is hard to do

Spring Awakening by Frank Wedekind, presented here by the Greenwich Theatre Company at BAC was written in 1890. This "children's tragedy", as it was subtitled, was deemed so shocking that it did not appear in an uncensored version in this country until 1974, when it was produced by the National Theatre.

Set in a small German town, it is the story of a group of young people struggling to understand the sweet and violent emotions of puberty in the face of a wall of silence and disapproval from their elders. Thirsty for knowledge, they have only their peers' experiences from which to construct theories about the world. The explanations that they fumblingly arrive at about the mechanics and meaning of procreation are by turns painful, alarming and comic.

The young and brilliant Melchior Gabor, already an atheist at the age of 15, has the advantage of a liberal mother who allows him to read Faust, and it is therefore left to him to explain to his more diffident and sheltered friend Moritz the facts of life.

Although anatomically correct, his explanation of the sexual act still casts the genders as victim and perpetrator, and it is this explanation which leads directly and indirectly to his downfall. Both he and his willing "victim", Wendla Bergmann, are brought down by the adult world's fear of truth and Wendla's fate is an example, still sadly relevant today, of the tragic consequences of euphemism and misinformation.

In Tim Supple's production in 1995 at the Royal Shakespeare Company, the piece was given added poignancy by the casting of teenagers in the young parts. It is to this production's credit that this cast of professional adult actors were never less than convincing as adolescents.

Director Margarete Forsyth has collected a large and able cast, many of whom have worked with her before at Greenwich Theatre. Simon Scardifield, Gareth Corke and Zoe Hart, who played the central trio of Melchior, Moritz and Wendla were particularly good.

Of the adults, Joan Walker as Mr Gabor, a woman of fierce intelligence hemmed in by society's strictures, and Alwyne Taylor as the well meaning but misguided Mrs Bergmann also deserve special mention.

Forsyth has chosen to use a very simple and open set, suggesting period and place with minimal but well chosen props. There are many lovely touches in the direction, from the whistling janitor who opens the second half to the new socks that Moritz buys for his suicide.

While allowing the tragedy to unfold, she has not neglected the humour – both light and dark – of the piece, and for this Wedekind would have thanked her. He apparently found productions of his play far too serious and didactic.

We see in detail how the child is father to the man and how the petty cruelties of childhood prefigure their more dangerous adult expressions. Mrs Gabor's lesson to Melchior that "even beautiful things can be harmful if we lack the maturity to understand them" is in this context just as relevant to the adults who rule her son's world.

At BAC, until June 1 (0171-223 22230).

Theatre/**David Murray**

Earthbound 'Seagull'

If *The Seagull*, now revived by Peter Hall's company at the Old Vic, seems grounded from start to finish, that may well be how Sir Peter wanted it played. He scotches any impulse one might have to empathise with the young persons' sentimental dreams and illusions, let alone those of their seniors; nor does Tom Stoppard's English version of Chekhov's text pander to actors who relish hopeful romantic effusions.

The result is coolly acted and tidily staged, and leaves a flat taste behind. The canonical status of *The Seagull* as Chekhov's first "mature" full-length play has long seemed dodgy anyway. Too many vital events happen during the two-year gap between Acts 3 and 4 – we have to take their impact upon the characters on trust; the "seagull" metaphor is worked to death; and poor young aspiring-actress Nina's final monologue is virtually unplayable now.

Even the divine Vanessa only *just* got away with it, 20-odd years ago. Here it defeats Victoria Hamilton's clever, eye-catching Nina utterly; we don't believe a word of it. Sir Peter has deromanticised his principals by taking them all at each other's least friendly evaluations, as the play-within-the-play scene in Act 1 makes clear: neither young Kostya's dreadful script, in Stoppard's version, nor Nina's gauche elocution suggests the least scrap of talent.

As for the "famous actress" Madame Arkadina, Kostya's mother and then Nina's romantic rival, Felicity Kendal gives her the perky airs of someone who wants to be recognised as a metropolitan sophisticate (we are at her brother Sorin's rundown country estate throughout), but never the theatrical weight of a *grande tragédienne*.

Her unwelcome asides during Kostya's play are just embarrassing motherly comments, not lethal sarcasm from a great height; so Kostya's violent reactions – there and later – seem mere tantrums, which Hall plays up by making his Kostya (personable Dominic West) go into adolescent agonies. In short, he turns a tragicomedy of brave romantic aspirations into a dry domestic farce, where Kostya's offstage suicide at the end leaves us feeling nothing at all.

For two acts, Michael Pennington gives us a bracing, down-to-earth Trigorin, the distinguished short-story writer who is Arkadina's long-term lover and briefly (between Acts 3 and 4) Nina's seducer. Excellently plain and unpatronising in the country retreat, just a professional writer with no side at all, in Act 3 – quite suddenly, without the least communicative conviction – he begins to mouth rapturous speeches about Nina. We cannot imagine why, given the man we took him for; nor does anything in the final act explain him better.

Equally, this Arkadina's response to his abrupt infatuation is mere routine, a "There, there!" tamping-down of a trivial gaffe. By Act 4, they have regained their long-standing composure without a wound. Hall certainly achieves a rare consistency of tone for his *Seagull*; and he has persuaded me that dramatic *in*consistency is really the life-blood of Chekhov's unresolved play. Better that, than this sadly diminished reduction of an awkward play to its dullest pragmatic terms.

In repertory at the Old Vic.

INTERNATIONAL ARTS GUIDE

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Freiburger Barockorchester: with conductor Thomas Hengelbrock, baritone Matthias Görne and the Deutsche Kammerphilharmonie in works by Schubert and Brahms; May 17

■ BONN

OPERA
Oper der Stadt Bonn Tel: 49-228-7281
● Nabucco: by Verdi. Conducted by Renato Palumbo, performed by the Orchester der Beethovenhalle Bonn and the Oper der Stadt Bonn; May 17

■ ESSEN

EXHIBITION
Museum Folkwang Tel: 49-201-8845314
● Karl Heinz Adler: exhibition examining the work of the German painter over the past five decades, tracing his development from figurative to more abstract work and experiments with colour; opens May 15

■ GLASGOW

EXHIBITION
Hunterian Art Gallery Tel: 44-141-3305431
● Altered States: The Etching Revival 1850-1929: exhibition surveying the range and popularity of etching in the late 19th and early 20th centuries. The display is drawn from the museum's collection and includes works by Whistler, Degas, Sickert and Augustus John; opens May 17

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig Tel: 49-341-12700
● MDR Kammerphilharmonie: with conductor Uwe Mund, flautist Katalin Kramarics and violinist Juna Fischer in works by Mozart, Ibert and Mendelssohn; May 17

■ LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● London Soloists Chamber Orchestra: with conductor David Josefowitz, pianist Antoine Rebstein and violinst Eiko Tanaka in works by Mozart and Beethoven; May 14

EXHIBITION
Dulwich Picture Gallery Tel: 44-181-6935254
● The Inner Eye: Art Beyond the Visible: exhibition examining the dreams and fantasies that have inspired artists from the Middle Ages to the present day; to Jun 1

National Gallery Tel: 44-171-7472885
● Discovering the Italian Baroque: The Denis Mahon Collection: display of 79 paintings and 30 drawings including works by Guercino, Reni, Domenichino and Carracci; to May 18

■ LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-8576000
● The End of the Century: Prints Since 1970 from the Collection: included are works by artists responsible for the boom in contemporary printmaking such as Andy Warhol; works that demonstrate the renewed interest in figurative art, such as those of Keith Haring, and works by conceptual artists including Jeff Koons; to May 18

OPERA
Dorothy Chandler Pavillion Tel: 1-213-972-8001
● Il Ritorno D'Ulisse in Patria: by Monteverdi. Conducted by Glen Wilson, performed by De Nederlandse Opera, L.A. Opera and Musica Angelica. Soloists include Frederica von Stade and Thomas Allen; to May 18

■ LYON

OPERA
Opéra National de Lyon Tel: 33-4-72 00 45 00
● La Bohème: by Puccini. Conducted by David Robertson; May 16

■ MADRID

CONCERT
Fundación Juan March Tel: 34-1-4354240
● Sylvia Torán: the pianist performs works by Schubert, Mozart and Beethoven; May 17

■ MUNICH

OPERA
Prinzregententheater Tel: 49-89-4706270
● Idomeneo: by Mozart. Conducted by Peter Schneider and performed by the Bayerische Staatsoper; May 15

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-8795500
● Prints in the Age of Albrecht Dürer and Lucas van Leyden: exhibition presenting highlights from the Museum's collection of German and Dutch prints dating from 1470 to 1550. 110 engravings, etchings, woodcuts, and illustrated books are on display; to Jul 13

■ OXFORD

EXHIBITION
Museum of Modern Art Tel: 44-1865-722733
● In Visible Light: exhibition examining the history of photography's attempts to classify the world and questioning its role as a passive recorder of events. On display is a print taken from the first X-Ray (from 1895) as well as a number of works by photographers including Andres Serrano, Humphrey Spender, Sol LeWitt, Diane Arbus and Cindy Sherman; to Jun 22

■ PARIS

DANCE
Théâtre National de l'Opéra - Opéra Garnier Tel: 33-1–426650 22
● La Sylphide: choreographed by Pierre Lacotte after Philippe Taglioni to music by Schneitzhoeffer, performed by the Ballet de l'Opéra National de Paris; May 14,15,17

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44781233
● Chemin faisant, Frère Crayon et Sainte Gomme: Designs de Martial Raysse, 1958-1996: display of some 100 drawings by the French artist who came to prominence in the early 1960s as part of the New Realism, quickly gaining a reputation for a more modern outlook than his nostalgic contemporaries; to Jun 9
Hôtel Dassault Tel: 33-1-961223
● La Principauté de Monaco, 700 ans d'histoire: exhibition marking the 700th anniversary of Monaco, tracing the history of both the principality and the Griamldi dynasty. On view are works from the collections of the Palais de Monaco and the Museé National de Monaco; to May 20

OPERA
Théâtre de l' Opéra Comique Tel: 33-1 42 44 45 46
● Il Matrimonio Segreto: by Cimarosa. Conducted by Andrea Stoehr. Soloists include Nicholas Courjal and Joel Azzaretti; May 13,14,15,16

■ ROME

DANCE
Teatro dell' Opera di Roma Tel: 39-6-481601
● Orlando: choreographed by Robert North to music by Sergio Rendine; May 17, 18

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Ensemble Modern: with conductor Peter Rundel; May 17
Musikverein Tel: 43-1-5058681
● Hochschul Symphonie Orchester: with conductor Uros Lajovic, flautist Matthias Schulz and pianist Gottlieb Wallisch in works by Ibert, Bloch, Wieniawski and Rachmaninov; May 14

■ WASHINGTON

EXHIBITION
Corcoran Gallery of Art Tel: 1-202-6383211
● Milt Hinton: exhibition of photographs by the jazz musician; to Jun 1

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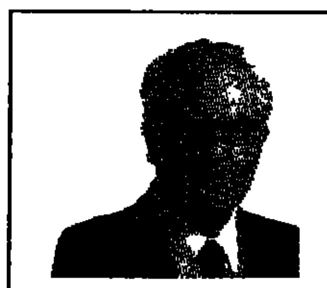


Martin Wolf

Far from powerless

Contrary to fears that globalisation has sidelined governments, elected bodies have an important role in implementing sensible national policies

It is often feared that integration into the global economy renders governments impotent and irrelevant. Nothing could be further from the truth. The opportunities afforded by a global economy enhance both the benefits of wise government and, fortunately, the chances that governments will behave wisely.

The latest World Economic Outlook from the International Monetary Fund says globalisation has served to accentuate the benefits of good policies and the costs of bad ones.

Why then, do so many bewail the weakening of government? The answer is simple: they start from a deluded view of what government is for. They think of the state as a wise and benevolent master whose job is to command the foolish and recalcitrant masses.

Such a government would indeed be constrained by globalisation. This is why countries with such ambitions – such as members of the former socialist bloc – have always attempted to control, if not eliminate, the interaction of their citizens with the rest of the world.

Yet no sensible person should weep for the constraint imposed by international economic integration upon such ambitions. They should recognise the myth of the benevolent, all-controlling state as a mask for despotism. Instead, governments must be thought of as servants or perhaps partners. Their job is to provide the services their people need to live the lives they alone are entitled to choose.

What then, are the essential tasks of governments in an internationally integrated economy? And does globalisation prevent the state from achieving any of them?

The clearest lessons can be derived from the experience of developing countries because they have adopted such varying policies. The chart shows that income per head of developing countries, as a group, has hardly changed in relation to those of the advanced countries over the past 30 years. Developing countries remain very poor, but a number of economies – Hong Kong, Singapore, South Korea, Taiwan, Chile, Malaysia, Indonesia, Thailand and China – have started to close the gap quite rapidly.

How are these successful economies to be distinguished from the far more numerous failures? They do not, for example, all come from one civilisation, even though many are Asian. The IMF points to five determinants: the quality of governance, macroeconomic stability, openness to the world economy, the quality of investment, and the skills of the workforce.

Development is impossible where there is civil war or grossly exploitative, even murderous, government. That is evident. But even a proclivity for non-transparent and arbitrary interventionism will breed corruption, encourage lobbying for special treatment and subvert the law. Similarly, lack of macroeconomic stability undermines the confidence needed to undertake large-scale, long-term investment.

Openness to trade is perhaps most important of all, particularly for countries with small markets. Restrictions on profitable trade by African countries, for example, have led to a disastrous decline in their share of world trade – from 3 per cent in the 1950s to a mere 1 per cent today. Chile, by contrast, which has liberalised trade most completely, has the most successful economy in Latin America.

Quality of investment depends on several conditions, including the sophistication of financial intermediation; effective regulation of monopolies and the financial system; promotion of competition; protection of property; and limits upon normally inefficient state-owned enterprises.

Finally, the initial level of human skill has been significantly better in high-growth countries than in less successful ones, with universal primary education particularly important.

These five points are merely a minimum agenda. But good governments can, or should, do more. In a recent paper*, Mr Nicholas Stern and Mr Joseph Stiglitz, chief economists of the European Bank for Reconstruction and Development and the World Bank, add environmental regulation, aspects of health, the provision of a social safety net, policies to aid the transfer and development of technology, and systems to help promote savings.

For the most part, international economic integration will reinforce a state's ability to deliver what is needed. This is automatically true of trade liberalisation. It is also true of macroeconomic stability – since capital flight will bring a profligate government to heel – of improving the domestic environment for investment, and of constraining the worst abuses of government power.

Yet conflicts could arise. The most important of these is the fear that globalisation limits the capacity of governments to tax and regulate. To the extent that this is true, it has a beneficial side, since penal taxation and inefficient regulation will be curbed. But the ability to finance desirable public spending or impose necessary regulations, it is said, might also be reduced. But, in general, these worries are overdone.

Normally, people do not move in large numbers to escape the burden of taxation and regulation, provided the burden is not penal and they like what the taxes pay for. Moving countries is costly and risky. Direct and indirect taxes on labour income are far higher in most of Europe than in the US, but the skilled population is not flooding from the former to the latter.

Capital, particularly portfolio capital, is far more mobile than labour. But companies will not move their entire stock of assets because of modest differences in levels of taxation or regulation, unless exactions become ruinous.

The proposition that the integration of world markets eliminates the capacity of states to tax and regulate is wrong. The government of an internationally integrated economy is far from powerless. It is merely somewhat constrained.

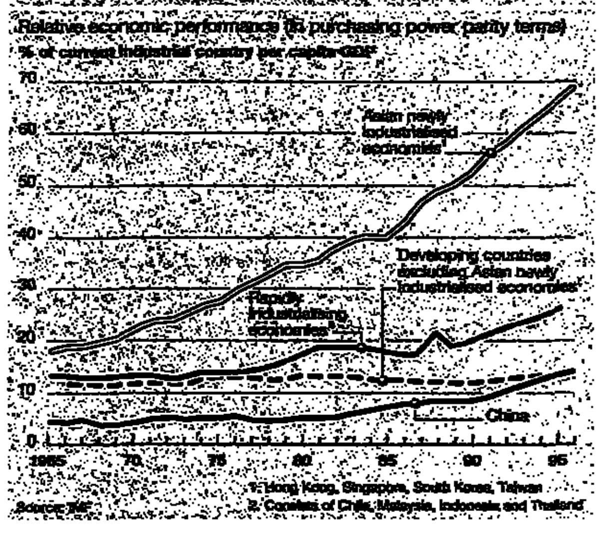
On balance, competition among states within the global economy is beneficial. If states treat their people badly, there will be capital flight and, in extreme circumstances, even mass emigration of the more skilled.

The existence of many governments in a global economy can become problematic when the actions of one affect others. One obvious example is the environment. Then there is trade policy, where one country's protection of vulnerable industry is another's loss of vital export opportunity. Another is the failure to regulate financial institutions effectively.

Forget the myths that governments are impotent in an internationally integrated economy or that what they do is unimportant. The crucial question is how a multitude of often-competing governments are to co-operate where that is necessary.

Half a century ago, an array of international institutions was created to help achieve precisely this. But their success depended on co-operation among a small number of largely like-minded western states. The challenge of the next half century is to make them more effective and more inclusive. It will be difficult. It must not be allowed to become impossible.

**A framework for a development strategy in a market economy: objectives, scope, institutions and instruments, EBRD Working Paper 20*



Activists take up sharper arrows

Shareholders are changing tactics to press environmental issues, says Leyla Boulton

Lord Holme, Rio Tinto's director for external relations, closed his eyes during a session of environmental questioning at the annual meeting of the mining company last week. But a string of protests at recent meetings of UK companies is forcing many managers to wake up to new tactics aimed at improving the environmental and ethical performance of businesses.

The present wave of shareholder activism to a climax tomorrow at the meeting of the London arm of Royal Dutch/Shell. There, Pirc, the campaigning investment advisory service, will present a resolution – the first of its kind in the UK – demanding the oil group publish externally verified reports on its environmental and ethical conduct.

More generally, Pirc and the World Development Movement, a regular protester at Rio Tinto's annual meetings, are urging the government to alter company law to make it easier to put forward such resolutions. They are seeking the abolition of provisions allowing companies to charge shareholders for the cost of proposing such resolutions. Pirc also argues for a lowering of the threshold stipulating that a motion must command either the support of 100 shareholders or represent owners of at least 5 per cent of the company.

The Pirc resolution is almost certain to be rejected by a majority of Shell shareholders, including Prudential, Britain's largest life assurance company, which was visited for the first time by campaigners during its annual meeting last week.

But both campaigners and corporate governance experts argue that even defeats bring useful public pressure. In the US, where resolutions are easier to present than in the UK, "shareholders don't expect to win the votes but to raise the profile of an issue", says Mr Stephen Davis, a Boston-based international corporate governance consultant.

Mr Steve Kretzmann, of Project Underground, a group which today publishes fresh criticism of Shell's human rights and environmental record in Nigeria and Peru, sees shareholder protests as "an important arrow in the quiver of tactics" available to non-governmental organisations.

Even before the Pirc resolution has been voted on, Shell has visited shareholders in its efforts to persuade them that it is already addressing the concerns raised.

"Institutional investors are ringing us to tell us this is the first time they've had an oil company come to talk to them about the environment and human rights," says Ms Anne Simpson, Pirc's co-director.

Rio Tinto, which recently took on as a consultant Mr Tom Burke, a former head of Friends of the Earth, will publish its first environmental report and has pledged to embrace sustainable development.

Such concessions are fuelling a belief among some campaigners, following the US lead, that investors and lenders could become their most important lever on companies. "How companies cope with political instability and environmental liability are not frivolous issues but are very much related to their financial bottom line," says Mr Davis.

> 'It needs men in grey suits like me to take a stand. I'm already a millionaire but I want a pleasant planet on which to enjoy my money'

Friends of the Earth said last week it would "step up shareholder action" as "quite an effective way of putting pressure on companies". The group's desire to learn the corporate ropes was illustrated by the presence in its delegation at Prudential's annual meeting of Mr Adrian Foster-Fletcher, a businessman who advises it.

"My concern is that environmental groups are marginalised by being seen as a bunch of people who have nothing better to do than protest," says Mr Foster-Fletcher, who owns his own head-hunting firm. "It needs men in grey suits like me to take a stand. I'm already a millionaire but I want a pleasant planet on which to enjoy my money."

Prudential has said it will vote against the Pirc resolution because it constitutes undue interference in the Shell board's ability to run the company.

But even within Prudential, Mr Derek Higgs, the chairman of the group's portfolio management arm, believes that a company's management of "environmental risk" will ultimately affect the interest rate it pays on capital. Mr Higgs, who also heads the environmental reporting group of the government's Advisory Committee on Business and the Environment, can envisage a time when companies will disclose sufficient information on environmental performance to enable investors to make valid comparisons. Businesses most adept at managing environmental risk will gain a competitive advantage, he says.

"The loop to me is blindingly obvious," he says. "But one must keep banging on about it."

Pfizer forum EUROPE

Time To Take Our Medicines Seriously

BY JOHN URQUHART M.D.

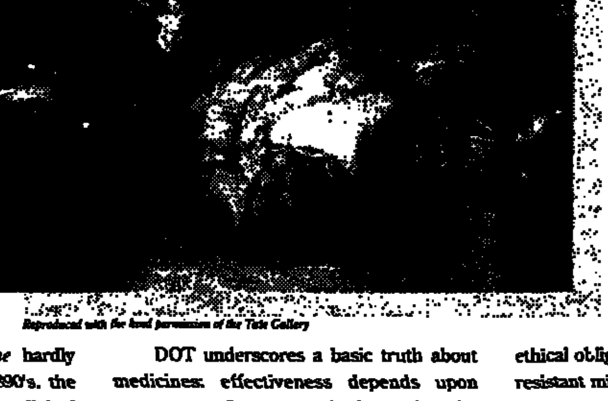
According to an expert on pharmacoepidemiology, failure by patients to take medicines as prescribed can lead to serious health problems and higher medical costs.

Prescription drugs are now a main interventional arm in medicine, but this is mostly a post-war development. When I studied medicine during the 1950's, most of my professors had learned medicine before the momentous transformation brought by antibiotics, which gave us the upper hand with most bacterial infections, supplanting age-old defencelessness. Other advances followed, changing the pharmaceutical marketplace from few to many products of proven therapeutic efficacy, for a widening array of ills.

Historically, medicines were held in low repute. In about 1860, Oliver Wendell Holmes remarked that dumping the entire pharmacopoeia into the sea would harm only the fishes. Osler's 1892 *Textbook of Medicine* hardly mentions treatment, but in the 1890's, the chemical industry began to seek medicinal properties in chemicals. A few important medicines resulted before 1940, but then progress accelerated - the wartime development of penicillin, the first drugs for tuberculosis (TB), steroids, broad-spectrum antibiotics, oral contraceptives. Sustained public investment in biomedical research has been invaluable, providing both new knowledge and scientific education for those needed to work in academia, industry, and regulatory agencies.

Today's newest medicines are based on very recent scientific advances in genetics, immunology, and cell physiology. Yet the Director General of the World Health Organisation recently stated that the most important medical advance of the last decade was not a new drug, but a method of drug treatment, called Directly Observed Therapy (DOT), for assuring correct taking of anti-TB medicines. DOT requires patients to come to the TB clinic four times a week to be observed taking their medicines.

There are several reasons for DOT's importance. First, medicines work poorly or not at all unless dosed consistently. Dosing lapses allow drug-resistant bacilli to develop. TB remains highly contagious, but treatment options are few when resistance develops to first-line drugs. Proliferation of TB bacilli resistant to all available drugs would turn the medical clock back a century, when TB was the No.1 killer. The use of DOT which ensures patients take their medicines consistently gives superior results: highest cure rates, lowest rates of relapse and drug-resistance.



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DOT underscores a basic truth about medicines: effectiveness depends upon correct use. Correct use is the goal of the partnership between patient, physician, and pharmacist: correct diagnosis and rational prescribing from the physician, accurate dispensing from the pharmacist: accurate dosing instructions from both. Inconsistent dosing by the patient nullifies drug action, adds risk, and increases care costs.

The specifics vary widely, by drug, disease, and the patient's overall condition. Cholesterol-lowering drugs, for example, are about four times more effective in those who dose correctly than in the 25% of patients who comply least well. About 2/3rds of hospitalisations for complications of heart failure arise from poor compliance with drug regimens. Poor compliance with immune-suppressants is a leading cause of organ transplant rejection.

We've recently learned much about compliance from studies with drug packages that electronically record times when dosing occurs. One patient in about 6 skips doses for several days or more ('drug holidays') at least monthly; another 1 in about 6 has drug holidays 3-4 times per year, missing many single doses in between. Surprisingly, people in all social strata, and with a wide array of diseases, make these errors - even health professionals. The electronic records of dosing pinpoint when drug holidays occur, which helps clarify their role in failed or problem-ridden drug treatment. Recent work indicates that holidays with the newest class of anti-HIV drugs give rise to drug-resistant HIV; holidays with some cardiovascular drugs increase the risk of heart attacks.

One way to prevent lapses in dosing is to inventory the patient's daily routines and to link dosing firmly to one of the more robust routines. Many patients take this common-sense approach without help, but not all think to do it. Naturally, it presumes that the patient has routines and accepts the principle of treatment: either may be missing, so there is no panacea.

With infectious diseases, like TB and HIV, good compliance not only serves the patient's interest, but is an ethical obligation, to prevent spread of drug-resistant micro-organisms. With all diseases, the costs of treatment are shared through systems of governmental or private insurance. These may make health care seem 'free', but of course it is not. Poor compliance with rationally prescribed drug regimens complicates care, adds risk, and increases the costs we all have to pay. Thus, we all have an obligation, if we accept the principle of treatment, to take our medicines, seriously.

John Urquhart is Professor of Pharmaco-Epidemiology at Maastricht University, The Netherlands.

LETTERS TO THE EDITOR

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Millennium computer bombers should be brought to justice

From Mr Stephen Castell.

Sir, Mr Fitzpatrick is right to draw attention to the cost to the UK's public sector of sorting out its computer millennium problem (Letters, May 10).

I have personally spent nearly a year trying to persuade the former government, via the National Audit Office, the House of Commons, Public Accounts Committee and Central IT Unit, of the equal importance of public-sector organisations' carrying out a proper assessment of just who is really liable to pay such costs.

Since computer experts will readily agree that the millennium bug is what the lawyers would call a "material defect" (ie involving a large consequential effect if left unrectified and substantial time/effort to "find and fix" across a whole software "estate"), those causing the fault in the first place are on the face of it the ones to be called legally to account.

It is certainly true that the new government needs urgently to find the necessary resources to sort out the public sector problem.

However, paying to get the public sector's millennium bombs defused in time is one thing, but making sure that the bombers who thoughtlessly, needlessly or even negligently planted them meet their proper liabilities is quite another.

Taxpayers have a right to expect the government not to neglect the latter in what may soon become a belated national stampede to achieve the former.

Stephen Castell,
Castell Computer and Systems Telecommunications Ltd,
20 Grange Road,
Wickham Bishops,
Witham,
Essex CM8 3LT, UK

Tories must reform structure

From Mr Derek H. Broome.

Sir, It is right that the Tory leadership choice should involve others than the unrepresentative rump of MPs. However, the suggestion of Mr Robin Hodgson, chairman of the National Union Executive Committee, ("Tory party activists want say in election of leader", May 8) for extending consultation to so-called grassroots activists is not the immediate answer.

The constituency organisations, once a strength, have decayed and no longer represent the views of natural supporters. Radical steps are needed to reverse the trend, especially as the party cannot rely on funding from overseas and UK companies.

Our constituency association lost a seat held by a heavily sceptic MP with a 12,000-plus majority. It can hardly muster a quorum for its AGMs, cannot properly support its office, and has made no contribution to party funds for years. Membership is a secret, but subscription revenue is pitiful.

The first step to recovery for the Tories is to change their corporate structure and to vigorously promote national membership, as do the other two parties. That was the important decision which enabled the Labour party to oust ageing lefties from local office, to bring in active workers and subscribers, and to make itself accountable and electable.

Derek H. Broome,
Potters' End,
52 Wellingborough Road,
Mears Ashby,
Northampton NN6 0DZ, UK

Time to dismantle barriers for lone parents

From Ms Karin Pappenheim.

Sir, There is indeed an urgent need for action to unlock the traps which keep lone parents out of the labour market (Welfare set for radical reform May 12).

Although most want and need to work, they are blocked by prohibitive childcare costs, lack of recent work experience, and the difficulty of finding a secure wage that will cover the costs of a family.

If this government is serious about enabling lone parents to work, it must ensure that there is co-ordinated action on several fronts, involving education and training to prepare lone parents for work, provision of affordable childcare and active promotion of family-friendly employment practices in the workplace, which can make a real difference to a lone parent's chances of entering or remaining in work.

What will not work is the implementation of the former Conservative government's planned reduction in benefits for both working and non-working lone parents.

The impact of those reductions could involve the loss of up to £10.70 per week. It would run entirely counter to welfare-to-work objectives, making it more difficult for lone parents who are in work to stay there and setting up an additional barrier for those still struggling to make the move from benefits to work.

Karin Pappenheim,
director,
National Council for One Parent Families,
255 Kentish Town Road,
London NW5 2LX, UK

A swift way to turn off the heat

From Mr Desmond Fitzgerald.

Sir, The chancellor appears to be quite rightly concerned about overheating in the UK economy, especially given likely customer demand growth of up to 4 per cent in 1997.

Actually, one could consider this a probable underestimate, given the expected £20bn distribution to potential consumers from building societies and insurance companies demutualising themselves.

I would like to make a simple tax suggestion that could kill several birds with one stone.

Just as the chancellor is proposing a windfall profits tax on utilities, why not bring in a windfall profits tax on these definitely windfall distributions?

A simple 40 per cent immediate tax on distributions this year as they occur would presumably raise about £8bn, as well as having an immediately beneficial effect on potential consumer demand into the bargain.

The impact on the consumer in his or her role as voter need not be too negative either, since these are sums of money which in normal circumstances the recipient would not possess anyway.

Indeed, I suspect that the chancellor would actually increase the new government's popularity by a decision to dedicate a significant proportion of the funds raised in this way specifically to health and to education.

It does seem to me to be a tax idea without any negative connotations.

M. Desmond Fitzgerald,
chairman,
Equitable House Investments Ltd,
Carthusian Court,
12 Carthusian Street,
London EC1M 6EB, UK.

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COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday May 13 1997

Meeting in Male

Jaw jaw is better than war war. This alone makes yesterday's meeting of the prime ministers of India and Pakistan in the capital of the Maldives good news. A few concrete steps were also taken and further contact promised. But more progress is urgently needed if the countries are to shift their efforts from pointless conflict towards economic development.

The fact that the meeting between Mr Inder Kumar Gujral of India and Mr Nawaz Sharif of Pakistan, the first at this level for four years, occurred at the margins of a summit of the seven-member South Asian Association for Regional Co-operation (Saarc) is symbolic. The Indian prime minister sees greater economic co-operation as the way towards faster development and improved political relations. In this he is right. Moreover, in the so-called Gujral doctrine, India's prime minister has decided that his country, as the region's dominant power, should make unrequited concessions in the interest of better relations. Meanwhile, Mr Sharif, with his vast majority, is in a strong position to respond.

It would be foolish to underestimate the obstacles India and Pakistan have fought three wars since independence in 1947. Hopes of peaceful relations are permanently hostage to the conflict over Jammu and Kashmir. But yesterday's meeting – helped perhaps by the fact that both prime ministers come from the Punjab and were refugees half a century ago – brought signs that such talks can make progress.

Specific agreements were predictably modest: the leaders agreed to release each others' nationals from prison and to set up a telephone hotline between them. Far more important, however, was the decision to establish working groups to address outstanding issues between them, including Jammu and Kashmir. Ultimately, however, Pakistan and India may have to agree to differ on this. India believes that its successes in the war against the insurgents and the recent elections vindicate its stance, while Pakistan is unlikely ever to accept the legitimacy of India's claim.

Yet both should recognise that what divides them is much less important than the task they share. As the recently published report on human development in South Asia demonstrates, this is much the poorest region in the world. Yet India's spending on defence is two-thirds of its spending on education and health, while Pakistan spends more on arms than in these areas. Both countries desperately need to re-orient their priorities. Peace between them is not merely desirable, therefore. It is a necessity.

Moral mission

The most striking innovation in yesterday's "mission statement" from Mr Robin Cook, the UK foreign secretary, is his pledge to strengthen the ethical content of Britain's foreign policy, notably by promoting democracy and human rights. As a statement of principle, this is commendable. But giving it substance will mean addressing some dilemmas.

As a medium-sized industrialised power, Britain's scope for action is bound by two constraints. The first is its dependence on trade. Many of the fastest growing export markets are emerging economies, with rudimentary democracies and questionable human rights records. Taking a tough moral stand in such cases may mean sacrificing export orders and jobs at home. That is a legitimate choice, but one which the government must have the political courage to defend if its approach is to be credible.

It can, nonetheless, take two straightforward steps to disentangle ethics and commercial self-interest. One is to untie Britain's aid budget, which has too often benefited UK exporters, rather than the poor countries it is supposed to help. The other is to exercise more restraint over weapons exports. Mr Cook has promised better disclosure and monitoring. These should, at least, help prevent a repetition of the official deception and chicanery exemplified by the Pergau dam and arms-for-Iraq affairs.

But as long as Britain remains a big arms exporter, hard choices will remain. How, for instance, should policy towards Saudi Arabia balance concern for human rights with the kingdom's strategic importance as an oil supplier? And how should the UK respond if tougher US competition squeezes its arms exporters out of politically more "acceptable" markets? These are not easy questions to answer.

The second constraint is that Britain's capacity to effect international change depends heavily on securing the backing of other European Union governments. When the EU speaks with one voice, as in trade policy, it carries far more weight than its members can individually. The Labour government's more positive approach to its EU partners promises to win it a sympathetic hearing. However, the problems of forging a common stand on controversial issues such as human rights are underlined by the EU's recent divisions over its stance towards China.

In truth, most foreign policy is based on complex trade-offs, in which moral absolutes must contend with other less noble priorities. That, no doubt, is why Mr Cook offered few specifics yesterday. Nonetheless, a policy which sets out to do the decent thing whenever possible is no bad place to start.

Equal terms

A "merger of equals" is often an indication that the two companies' strategies have run out of road. Exhausted by the struggle for shares of a slow-growth market, they fall gracefully into each others' arms, leaving the difficult issues – who will really be in charge, where will the merged company go from here – to be sorted out later.

The challenge for Guinness and Grand Metropolitan, which announced a merger of equals yesterday, is to prove that this does not apply in their case. On the face of it, the omens are not good. Both companies have at times seemed to lack a clear sense of direction: both have been penalised by investors as a result. Both operate in markets which are fiercely competitive and slow-growing. Both have indulged in intermittent acquisitions, with mixed results.

Perhaps more important, both have suffered from exaggerated expectations raised by their success in the 1980s. In that decade, their drinks businesses bought up overseas distributors and managed their brands globally for the first time. This produced enviable profits; but thereafter stagnant markets gave little scope for further growth. Attempts to find that growth organically have so far achieved limited success. Now the two companies say they can grow faster together than alone. The stock market believes them: their shares rose yesterday.

A broader question, however, hangs over the trend towards mergers of equals. There are a number of advantages over a conventional merger. Because there is no control premium and a small or non-existent cash element, the combined entity usually has a stronger balance sheet than in a conventional deal. Because there are no winners and losers, there is no legacy of bitterness.

The drawbacks, however, are also substantial. A merger of equals is sometimes a substitute for coherent independent strategies, rather than the logical consequence of them. The awkward questions which the two companies faced may then be postponed, rather than confronted. And unless there is a succession gap at one of the merger partners, there is often a deliberate vagueness about titles and lines of responsibility, leaving the two factions to fight for victory for years to come.

Mergers of equals are thus no more certain of success than conventional acquisitions. They can create value, however, where they bring greater freedom to act than would have been possible otherwise – as when Ciba and Sandoz joined to form Novartis. For Grand Met and Guinness, the test is simple: to bring to GMG Brands greater dash and imagination than either could achieve alone.

The FT Interview • Hilmar Kopper

A reluctant departure

With so many changes still to come, the chairman of Deutsche Bank regrets that it is time to step down, says Andrew Fisher

When Mr Hilmar Kopper, the chairman of Deutsche Bank, contemplates the huge changes that the planned single currency is likely to unleash on Europe's banking and financial markets, he almost wishes he were not about to step down as head of Germany's largest bank.

"It will be like the introduction of new quality standards for industry or the invention of a new engine which supersedes the internal combustion and diesel engines. My imagination is not big enough to grasp all the possible changes that will occur," he says. "It will be so interesting that sometimes I regret I don't have a few more years here."

He does not. After 20 years on the management board and seven years as chairman, 62-year-old Mr Kopper will be succeeded by Mr Rolf Breuer.

The smooth style of Mr Breuer, 59, is likely to be in marked contrast to that of the bluff Mr Kopper who moves up, after the annual meeting next Tuesday, to head the non-executive supervisory board. Mr Kopper says his new role will be advisory, not interventionist. "I certainly do not intend to tread on management's toes."

Under Mr Breuer's chairmanship, Deutsche Bank will have to adapt to rapidly changing environment, Mr Kopper says. In Germany, he believes there will be a further rationalisation of the public-sector savings and co-operative banks. "We need a streamlining process. This country is over-branched and over-banked, so something has to happen."

The competitive pressures and challenges of the single currency will lead to big markets in cross-border securities, money and asset management, he says. "The euro will decide, it will exert much stronger pressure over who does what with whom." But he dismisses speculation of an immediate shake-up of Germany's big commercial banks.

As he expands on these prospects, it seems as if he is about to take on the job of chairman, not leave it. With his powerful frame and down-to-earth manner, he exudes energy.

Mr Kopper took over the chairmanship in tragic circumstances after Alfred Herrhausen was murdered by terrorists in November 1989. His appointment came three weeks after the fall of the Berlin Wall and in the week the bank signed a deal in which Mr Kopper had been closely involved – the purchase of Morgan Grenfell, the UK merchant bank.

His time as chairman has been full of turbulence and controversy. On the positive side, the bank has thrust into east Germany, expanded aggressively in investment banking by marrying Morgan Grenfell's skills with its own financial resources, and restructured the group's sprawling domestic retail network.

But there have been plenty of setbacks too. The bank was caught up in the financial scandals at Metallgesellschaft, the industrial and trading company, and at Mr Jürgen Schneider's property empire. Mr Kopper has never been allowed to forget his public slip in referring to the DM50m (£17.8m) of trade debts left by the Schneider collapse as "peanuts" compared with the DM5bn of total debts.

The bank has also been involved in several corporate rescues, such as that of Klöckner-Humboldt-Deutz – now Deutz – in which it is a big minority shareholder. While Mr Kopper does not shrug off such problem cases, he regards them as part of the business of dealing with risk.

One case irritated him above all others. This was the failure of Morgan Grenfell Asset Management, the UK fund management arm, to prevent former manager Mr Peter Young from making hidden investments with clients' money. The scandal, which came to light last September, occurred within the bank itself, which "annoyed me very much, though I didn't like to show this".

The bank reacted properly, he says. "We protected investors' interests, we protected our name in the market." The cost of the affair, in which investors have been compensated and the unit trusts supported, has been put by the bank at up to DM1.2bn, although the final damage is likely to be much less.

Mr Kopper takes a positive view of his time as chairman. Analysts generally agree the bank has made great strides under his leadership. The bank now has "a good fighting chance of success in investment banking and of improving profitability in domestic banking", says Mr Stephen Lewis, London-based European banking analyst at Union Bank of Switzerland. "You can't really blame him for any of the problems they ran into."

Mr Dieter Hein, banking analyst at BHF-Bank in Frankfurt also believes Mr Kopper was right to push further into investment banking to reduce reliance on traditional bank lending, where margins have shrunk and risks increased. But he feels Mr Breuer may present the bank's message more effectively. "He [Mr Kopper] pursued the right strategy, but could have given the bank a better public face."

Mr Kopper says the bank's progress speaks for his own record. "This can be summed up in simple facts. Deutsche Bank has more than doubled in all respects over these years," he says, referring partly to total assets which have reached about DM900bn. "This is gratifying at a time when competition has increased and the markets have become more volatile."

Mr Kopper says the costly move into investment banking, concentrated in Deutsche Morgan Grenfell, has led to a balance between traditional lending business, involving huge amounts of capital, and fee-based income which depends more on advisory, trading and marketing skills.

"We achieved something in 1996 which I would have thought impossible five years ago," he says. In that year, the bank earned as much from fee-based income and other non-lending activities as from profits on traditional commercial banking.

From this strong financial base, Deutsche Bank intends to continue expanding across Europe as well as in North America and the Asia-Pacific region. Defining the bank's strategic goals, he says: "We should be among the leading retail banks in certain parts of Europe." The bank has large networks in Italy and Spain. Being at the forefront of technology is essential for a modern retail bank, he says.

Its Bank 24 direct banking operation could well operate outside Germany. "There are no immediate plans, but I think the euro will lead to changes on the European continent that will force us to new considerations." He even ponders doing retail business in eastern Europe, perhaps by taking a stake in a local bank, as well as wholesale and investment banking. "We have the systems and we have a good know-how in retailing."

In corporate banking, "we very definitely want to be a global player," he says. This does not mean the bank should be in "every corner of the world", but it should strengthen its position in North America and Japan, as well as Europe.

"I still think we are not strong enough in Europe, outside Germany." While the bank has improved in the UK, "we are not so special in corporate business in France and elsewhere". Asia and the US are also obvious targets for greater penetration.

His ambitions for investment banking are that "we should do our utmost to be at the top in Europe. This doesn't mean number one everywhere, but being among the leaders." Worldwide, Deutsche aims to be among the top contenders. "I would say we want to be among the top five. The problem is, of course, that we will never be able to push aside the big Americans."

He rejects the idea of a big US acquisition – recent rumours have mentioned Lehman Brothers or Salomon Brothers – to mount a challenge against such investment banking forces as Goldman Sachs, Morgan Stanley, J.P. Morgan and Merrill Lynch. "There is no question at all of us doing that. That would be the stupidest thing we could do today. We are trying to [expand] in America from our own resources."

Having ruled out big acquisitions, he adds, Deutsche must aspire to being at the upper end of the so-called "bulge bracket" of investment houses, which are below the top tier. "That's why we will not enter the major league in America. But being just below is also good."

Given Deutsche's modest US presence, he knows how difficult that will be through organic growth. But "the stupidest thing we could do at this time would be to pay a lot of money when the market is in a growth phase".

As Deutsche Bank continues to grow globally, it is even thinking of shedding some activities. "If you have so much baggage in your rucksack, you can't travel so fast and you have to think about unpacking some of it," Mr Kopper says. Any disposals will be made on strategic rather than profit grounds.

"Everything has to be questioned constantly, including what I have achieved," he says. "The bank's activities have to be looked at and very intensive questions asked about the future, about what we need."

The job of deciding where to grow and where to shrink will now fall to Mr Breuer and his colleagues. But Mr Kopper will be watching from the wings.

• OBSERVER •

Hammering away

■ Bahamas-based billionaire Joe Lewis certainly has the golden touch. Since he started building up his stake in auction house Christie's International three years ago, the business hasn't looked back. Over the weekend it emerged that Lewis has lifted his holding to nearly 30 per cent, worth about £150m; despite his repeated assurances to the contrary, there's renewed speculation he could launch a full bid.

Strong profits based on improving confidence across the art market and concentration on higher value lots have worked wonders. Since 1995 – when Sotheby's and Christie's decided not to compete for major collections by cutting charges – Christie's has roared ahead, pipping Sotheby's in sales terms last year for the first time in more than 40 years.

Now it's grabbed a huge art auction from under the nose of arch rival Sotheby's. The Ganz collection of 20th century art, which goes under the hammer in New York in November, could be worth more than $125m, possibly the largest ever sale by a single owner. That makes three in a row for Christie's, given this month's sale of the Loeb and Heinemann collections. All of which should make Lewis – himself a canny art collector and happy to buy the odd bargain at Sotheby's – an even happier man.

Read my lips

■ Keeping election promises is very important to Australia's Liberal-National government, which is nearing the end of its long-drawn-out budget process. Last night the Senate approved a much fought-over proposal to make high earners pay more for pensions, but made one important change in the wording of the measure – "tax" became "surcharge". During last year's election campaign, the victors followed the political fashion of promising no new taxes.

Peterson's palace

■ Pete Peterson, who last week took up his post as Uncle Sam's first ambassador in a unified Vietnam, is doubtless comfortable in his new residence, a sumptuous, restored French colonial villa. It's certainly better digs than the last time he lived in the Vietnamese capital – he spent six years as a prisoner of war, much of it in the infamous "Hanoi Hilton" prison.

His old "home" is only a few minutes drive away, but if he wants a final glimpse he had better hurry up. It's succumbing to the wrecker's ball to be replaced by a 22-storey office block on behalf of Singapore investors. Little is left of its pastel yellow walls and coils of barbed wire. If he should like a memento of his stay, Observer hears that bricks are going for only $100 each.

Or he may content himself with swapping Hanoi Hilton anecdotes with Do Muoi, the 80-year-old Communist party leader he'll meet as he does the diplomatic rounds. Muoi was put behind its bars as a young revolutionary by the French colonialists.

Indian robe trick

■ India's new PM Inder Kumar Gujral looked every bit the urbane diplomat yesterday in his sharp western suit when he met Nawaz Sharif, his Pakistani opposite number – the first meeting for four years between premiers of the not always amicable neighbours.

His predecessor, HD Gowda, favoured a *veshti kurta*, a long sarong and baggy shirt, for the big occasion. India's first PM Jawaharlal Nehru always wore the classic Nehru suit and a red rose, while his grandson Rajiv Gandhi and his westernised Nehru suit were inseparable.

But Gujral, a career diplomat, is from the "Savile Row" school of South Block, home of India's rather nattily dressed foreign service. Mind you, Gujral can't have enjoyed the sweltering heat of the Maldives; maybe next time he should pack a set of smart beachwear too.

Private health

■ Croatia's "Father of the Nation" Franjo Tudjman celebrates his 75th birthday tomorrow, weakened by stomach cancer but facing an even more debilitated opposition in the campaign for presidential elections on June 15. Croatians have not been told that he has cancer but many are sceptical of official bulletins pronouncing the president's health as excellent. Tudjman looks gaunt and wears a hat in public to cover hair thinned by chemotherapy. When he travelled to the US for treatment last November, not even Croatia's ambassador knew about the trip.

Such is Tudjman's domination of Croatian politics and its far-reaching system of patronage that only one opposition figure – Liberal leader Vlado Gotovac – has announced his intention to stand. Others appear to be counting, perhaps unwisely, on the elections that would have to be held if Tudjman fails to complete his next five-year term.

The Financial Times

100 years ago

Risks Of The Motor Car
Although we do not see many motor-cars about, the new method of locomotion is developing, however unobtrusively, and yesterday Sir David Salomons delivered a lecture which will be read with great interest. Sir David devoted himself mainly to the technical side of the question, and into this we need not follow him. But he strikes a note which specifically appeals to us when he says: "There is no doubt that the position taken up by certain motor companies has created a lull in sales. Nobody when purchasing a carriage desires to buy a legal action at the same time."

50 years ago

Indonesia Talks Fail
Amsterdam, 12th May. The economic negotiations between the Dutch and Indonesian representatives have resulted in failure, mainly due to the fact that Indonesia makes the return of foreign property conditional on certain demands, among them the partial withdrawal of Dutch troops. Official Dutch quarters express their "disappointment and anxiety" at these developments. Netherlands Indies shares were very weak here to-day.

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Tokyo markets expect Japanese rate rise

IBJ to lift long-term lending rate above 3%

By Gillian Tett in Tokyo and Richard Adams and Samer Iskandar in London

The Industrial Bank of Japan yesterday said it would raise its prime long-term lending rate above 3 per cent this week – the first such increase for a year.

The decision highlights the shift that has occurred in recent days in Tokyo's financial markets, as speculation has mounted that Japanese rates might rise later this year. The IBJ rate is taken as a benchmark for a range of personal, corporate and housing loans in Japan, so its increase could push up borrowing costs in a range of sectors.

Currency dealers said market talk of a rate rise was making the yen more attractive. On the European markets, the yen stabilised after the dollar found strong support at the Y118 level.

The dollar had sunk to Y117.50 during trading in Tokyo on Monday, before finding its footing near Y118. Traders pointed to comments at the weekend by Mr Eisuke Sakakibara, head of the Japanese finance ministry's international finance bureau, who said the dollar's fall since Friday was "not overly excessive".

IBJ's long-term lending rate has been pegged at a historic low of 2.5 per cent for the past five months, after it was cut last year as market rates fell because of uncertainties about the economy in Japan.

However, in recent weeks long-term market rates have risen sharply, reflecting a concern among investors that the Japanese government might raise official rates earlier than expected amid stronger than expected economic growth. Ms Alicia Ogawa, of Salomon Brothers in Tokyo said: "The shift in sentiment has been very startling."

The market yield on IBJ's debentures, to which it pegs its long-term lending rate, rose to 2.3 per cent yesterday, sharply higher than the levels seen in the spring. Consequently, the bank said it would raise its long-term lending rate from 2.5 per cent to between 3 per cent and 3.2 per cent later this week.

The increase would represent one of the largest upward moves the bank has made in recent years. The other two long-term credit banks, the Long Term Credit Bank of Japan and Nippon Credit Bank, are expected to follow suit later this week.

"This is a turn-around in the Japanese interest rate cycle," said Mr Kirit Shah, chief market strategist at Sanwa International in London. The yield on 10-year Japanese Government Bonds – JGBs – has risen to 2.68 per cent in recent days, from an all-time low of 2.08 in early April.

"Banks' long-term prime rate mirrors the trend in JGBs," Mr Shah said. "IBJ's decision to raise its rate is a result of JGBs' correction."

The market barely reacted yesterday to IBJ's rate rise. In London the futures contract on 10-year JGBs closed 0.31 lower at 123.34.

Mr Shoichiro Toyoda, chairman of Japan's Federation of Economic Organisations, said rates should not remain at present levels. He said steep currency fluctuations were undesirable and the yen's appropriate range was between Y110 and Y120 to the dollar.

Yeltsin backs controversial housing subsidy shake-up

By John Thornhill in Moscow

Mr Boris Yeltsin, Russia's president, yesterday threw his authority behind politically sensitive proposals to tackle one of the most costly leftovers of the communist era – subsidised housing.

In an effort to cut a massive drain on the state budget, the government wants to make housing largely self-financing by 2003. This would mean the average Russian household's bill for rents and services would more than treble in that time – which opponents of the reforms say would be socially explosive.

The bloated housing and municipal services budgets currently account for 30 per cent of total government spending, or 4 per cent of GDP.

The plans have already prompted heated disputes between the federal government, which is struggling to keep its budget deficit under control, and the country's increasingly powerful regional leaders, who fear the reforms could ignite a social explosion.

But Mr Yeltsin appeared to mollify many of the plans' critics yesterday by insisting that the immediate priority would be to cut costs rather than raise charges for housing services. "This money is being spent ineffectively and unfairly," Mr Yeltsin said in a government meeting. "The poor must only gain from these reforms."

The average Russian household pays less than 5 per cent of its income on housing costs and related services thanks to heavily controlled rents and federal and local government subsidies for housing maintenance, heating, water, and electricity.

The Russian government intends gradually to raise this proportion to international levels by 2003 and make these municipal services self-financing. In the west, families typically pay between 15-30 per cent of their income on similar items.

Mr Boris Nemtsov, the first deputy prime minister, said competitive tenders would be held for the provision of housing services, reducing their cost and improving their quality. "We have Rbs119,000bn ($21bn) of budget money that is being spent without any competition, without any tenders, without any control. There is no economic logic in this and total confusion."

While the comparatively rich would steadily pay more for their housing services, Mr Nemtsov predicted the number of poor households receiving subsidies would rise from 3.5m today to 10m by 2003.

EU ministers warn Italy to put finances in order

Continued from Page 1

in London. The pound earlier hit a seven-week low of DM2.72, 10 pfennigs below its recent peak.

The language of the ministers' statement on Italy was more pointed than that used for other governments still on the blacklist: Austria, Belgium, France, Germany, Greece, Portugal, Spain and Sweden. Portugal and Spain's efforts drew praise, notably from Mr Waigel.

Mr Waigel signalled that Germany might use the costs of unification as an excuse for any slight shortfall in the Maastricht debt target of 60 per cent of GDP.

Italy's deficit in 1996 was 6.7 per cent of GDP. The EU ministers said the control of public spending was "insufficient".

Mr Carlo Ciampi, Italian treasury minister, played down the significance of the recommendations.

Shell faces further criticism on human rights

By Robert Corzine and Leyla Boulton in London

The Royal Dutch/Shell group, the largest international oil company, will today come under renewed attack from environmental and human rights activists as it prepares to fend off a shareholder resolution critical of its policies in the two areas.

The authors of a new report critical of the company allege Shell's approach to a gas development in the Peruvian rainforest falls short of what it promised local people.

They also accuse Shell of making "cosmetic" reforms to its operations in Nigeria, where it has been blamed for complicity in human rights abuses and polluting the environment. They say Shell is using an extensive public relations initiative to mask inactivity on the ground.

The latest criticism of Shell, before its annual shareholders' meeting tomorrow, suggests the company remains a main target for international pressure groups.

This is in spite of recent efforts to improve operations in sensitive areas and to be more open about its involvement in controversial projects.

Last week Shell published its first worldwide environment report as part of its efforts to defuse the criticism.

Today's report was compiled by Project Underground, a US pressure group that monitors oil and mining developments, the Rainforest Action Network and Oilwatch, which represents indigenous peoples affected by oil developments.

The document, labelled an "independent annual report" with a blood-spattered Shell logo on the front, alleges that the company has violated "several components" of its environmental management plan less than a year after starting operations in Peru.

It said Shell was reporting "on-going fuel spillage ... often as frequently as once a day" at Nuevo Mondo, its logistics operations centre.

Security forces in Nigeria's main oil-producing region had forced people, "often at gunpoint", to sign statements inviting Shell to return to Ogoniland after it was forced out by local protests in 1994.

The report said that although Shell denied any connection to such incidents "it seems implausible that the company is unaware of them and unable to do anything about them".

Shell yesterday said it would only re-enter Ogoniland if it was sure that invitations from residents to do so were "genuine".

Hanging fire, Page 6

Activists' new tactics, Page 18

THE LEX COLUMN

High spirits

The euphoria over the proposed merger of Guinness and Grand Metropolitan considerably exceeded the £175m ($283.5m) of cost savings promised. Add in financing and tax benefits, rationalisation of brand portfolios and a tougher eye on costs, however, and the deal looks far better. Selling GrandMet products through Guinness's emerging markets distribution pipeline should accelerate sales growth. Besides, given the pressures for deal-making in a dull global spirits market, there was inevitable relief that the protagonists have reacted.

Guinness's largest investor, LVMH, provided a lone voice of discontent. Its preferred deal is joining its Moët Hennessy subsidiary with GMG, and splitting out food, hamburgers and brewing. Merging three businesses and demerging three others in one transaction looks a recipe for disaster. Nonetheless, LVMH has a point. GMG's joint chairmen wax lyrical about joining the super league of consumer goods companies. But being the size of McDonald's does not bring its growth rates. If the components of GMG learned anything from the past three years it should be that deals do not always create value, and the spirits industry is a tough place to be.

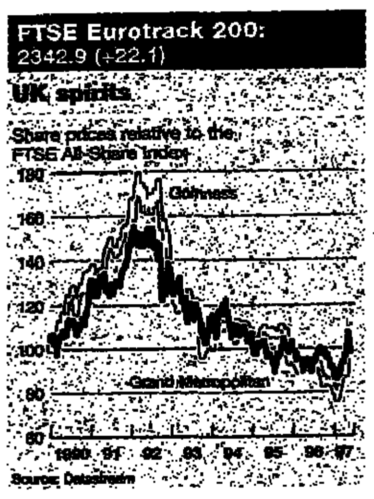
Fortunately, GMG's new chief executive believes in improving returns on invested capital and delivering shareholder value. If he retains his faith, the end game could be closer to LVMH's proposals than yesterday's empire-building rhetoric suggests.

Global spirits

Now that Guinness and Grand Metropolitan are set to become over twice the size of their nearest competitor in international spirits, wholesale consolidation has become inevitable. The world spirits market may be growing, but volumes are going to shrink steadily in the mature markets of the US and western Europe, where the international businesses are based. And the costs of tapping faster emerging markets growth are high. The enlarged GMG will gain cheaper product distribution, a far broader portfolio and thus an edge both in growing its sales and squeezing better prices.

So down below, there must be seven spirits businesses – Allied Domecq, Bacardi, Brown Forman, LVMH, Pernod-Ricard, Rémy-Cointreau and Seagram – desperately working out what to do next.

FTSE Eurotrack 200:
2342.9 (+22.1)



Source: Datastream

The history of branded goods businesses, from soft drinks to nappies, suggests they must do or die. There is room for another one or two merged spirits groups, which can compete with GMG. For the remainder, the future holds an ever-weakening negotiating position.

Few of the protagonists are well placed for deals. Rémy, Pernod, Bacardi and Brown Forman are family businesses and may need to feel more pain before they act. Seagram has the wherewithal to do a big deal, but its management seems more interested in Hollywood. And Allied has plenty of other problems to resolve. But if they do not act, their problems will only grow.

German restructuring

Are Germany's trade unions a threat to the country's industrial restructuring? The building industry faces its first official strike since 1950 only weeks after the unions helped to derail a merger between Krupp and Thyssen and won huge subsidies for the coal industry. For a nation struggling to improve its competitiveness, the combination of high labour costs and entrenched unions looks an unhappy one.

In fact, the power of Germany's unions is largely illusory. True, German workers have excellent working conditions, high pay and amazing amounts of holiday. But these benefits were won during years when productivity gains outstripped increases in the cost of living. Now that this has reversed, employers have been surprisingly quick to dump consensus-based thinking: German companies have shed thousands of domestic jobs in the past few years. The unions, by contrast, have blustered and threatened but done little more. The number of days lost to strikes halved between 1993 and 1995, as rising unemployment and falling membership numbers took their toll.

Make no mistake. The unions will win battles as they retreat. And, unlike in mid-1990s Britain, they can count on political support. But with unit labour costs 12 per cent higher than those of other industrial countries and annual working hours per employee 17 per cent below those of the US, Germany's restructuring will continue.

Currencies

Mr Eisuke Sakakibara, Japan's "Mr Yen", has played a blinder. Japan has faced the conundrum of how simultaneously to tighten fiscal policy and boost confidence and growth without developing an indecently large trade surplus with the US. By precipitating the dollar's sharpest fall against the yen in over 10 years last week, Mr Sakakibara, head of the Japanese finance ministry's international finance bureau, has managed to keep all these balls in the air. Crucially, he has introduced an element of exchange rate risk which should make Japanese investors more inclined to stay at home and support the stock market. But he has also managed to take the sting out of the contentious subject of Japan's large bilateral current account surplus with the US.

Mr Sakakibara's virtuosity, however, should not be mistaken for a sustainable turnaround in the dollar. His efforts were greatly assisted by a large downward shift in the expected USJapan interest rate differential. But this looks like an overreaction. The US economy grew by 5.6 per cent in the first quarter, and interest rates are still set to rise further. Notwithstanding Industrial Bank of Japan's decision yesterday to raise its prime long-term lending rate, the case for higher rates in Japan, by contrast, still looks very tentative. The dollar's stability against the D-Mark is simply confirmation that it is not facing generalised weakness.

With fundamentals still supporting a strong dollar, the Group of Seven industrialised nations should be wary of any further efforts to fine-tune exchange rates. Mr Sakakibara may have succeeded in taking the edge off the dollar, but it came at the price of disorderly markets.

Additional Lex on UK tax, Page 26

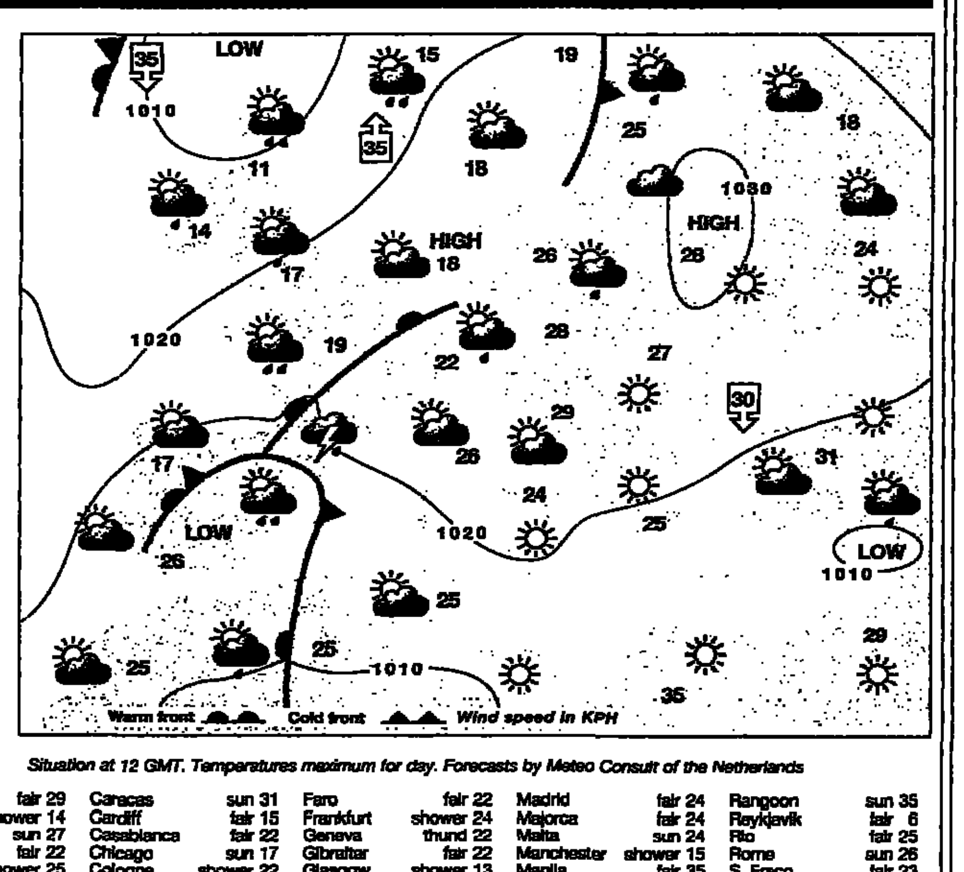
FT WEATHER GUIDE

Europe today

Atlantic coast regions will have variable cloud and seasonal temperatures. Southern Spain, western France and south-eastern England will be sunny. Rain and thunder showers will move from south-eastern France into north-eastern France, the Benelux and Germany. Italy will clear during the night and the Balkans will continue hot and sunny. Summer temperatures will spread as far north as Belarus and tropical values will reach the Ukraine. The Baltic region will be unsettled.

Five-day forecast

Warm air over Eastern Europe will gradually spread westwards and the UK, Northern France and Germany will become warmer. By the end of the week, thunder showers will start to move northwards from the Iberian peninsula into France and the UK.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
Abu Dhabi	sun 36	Beijing	fair 29	Caracas	sun 31	Faro	fair 22	Madrid	fair 24	Rangoon	sun 35
Accra	fair 31	Belfast	shower 14	Cardiff	fair 15	Frankfurt	shower 24	Majorca	fair 24	Reykjavik	fair 6
Algiers	fair 22	Belgrade	sun 27	Casablanca	fair 22	Geneva	thund 22	Malta	sun 24	Rio	fair 25
Amsterdam	fair 17	Berlin	fair 22	Chicago	sun 17	Gibraltar	fair 22	Manchester	shower 15	Rome	sun 26
Athens	sun 28	Bermuda	shower 25	Cologne	shower 22	Glasgow	shower 13	Manila	fair 35	S. Frsco	fair 23
Atlanta	fair 26	Bogota	shower 20	Dakar	fair 29	Hamburg	cloudy 19	Melbourne	fair 15	Seoul	rain 24
B. Aires	fair 22	Bombay	sun 33	Dallas	sun 28	Helsinki	cloudy 19	Mexico City	shower 30	Singapore	thund 33
B.ham	fair 16	Brussels	cloudy 19	Delhi	sun 37	Hong Kong	cloudy 28	Miami	fair 31	Stockholm	fair 17
Bangkok	fair 37	Budapest	fair 29	Dubai	sun 36	Honolulu	fair 28	Milan	fair 24	Strasbourg	cloudy 23
Barcelona	fair 21	C.hagen	cloudy 17	Dublin	shower 14	Istanbul	sun 23	Montreal	fair 13	Sydney	fair 18
		Cairo	sun 32	Dubrovnik	sun 26	Jakarta	fair 31	Moscow	cloudy 24	Tangier	fair 23
		Cape Town	sun 26	Edinburgh	cloudy 14	Jersey	fair 14	Munich	shower 24	Tel Aviv	sun 29
						Karachi	sun 35	Nairobi	thund 26	Tokyo	fair 25
						Kuwait	sun 39	Naples	sun 26	Toronto	fair 13
						L. Angeles	fair 22	Nassau	thund 30	Vancouver	fair 22
						Las Palmas	fair 24	New York	rain 17	Venice	fair 23
						Lima	fair 27	Nice	fair 24	Vienna	fair 28
						Lisbon	sun 20	Nicosia	sun 35	Warsaw	cloudy 27
						London	fair 18	Oslo	rain 15	Washington	rain 19
						Lux.bourg	rain 18	Paris	fair 20	Wellington	fair 15
						Lyon	shower 21	Perth	cloudy 20	Winnipeg	fair 12
						Madeira	fair 19	Prague	cloudy 23	Zurich	cloudy 21

We wish you a pleasant flight.
Lufthansa

This announcement appears as a matter of record only.

Videsh Sanchar Nigam Limited
(a Government of India enterprise incorporated with limited liability in the Republic of India)

37,800,000 Global Depositary Receipts
on behalf of the Government of India
and Videsh Sanchar Nigam Limited

Listed on the London Stock Exchange

Total Issue Proceeds US$527,000,000

Joint Global Coordinators and Bookrunners
Dresdner Kleinwort Benson | Jardine Fleming | Salomon Brothers International Limited

Co-Lead Managers
Cazenove & Co. | HSBC Markets
Merrill Lynch International | Union Bank of Switzerland

Co-Managers
Barclays de Zoete Wedd Limited | Credit Suisse First Boston | ING Barings
Lehman Brothers | Morgan Stanley & Co. | Peregrine Capital Limited

March 1997

هكذا من الأصل

Vita WORLDWIDE
21st CENTURY MATERIALS AND TECHNOLOGY T·O·D·A·Y
BRITISH VITA PLC

FINANCIAL TIMES
COMPANIES & MARKETS

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Tuesday May 13 1997 Week 20

Portugal OFFER New
visit us at: www.portugaloffer.com

The £24bn Grand Metropolitan - Guinness merger
Special report, Page 27

IN BRIEF

News Corp sued for $5bn damages

The clash between Mr Rupert Murdoch's News Corporation and EchoStar, would-be partners in US satellite television, grew with a breach of contract writ claiming damages of $5bn or more from Mr Murdoch's media group. Page 25

Deutsche Bank rules out US buys
Deutsche Bank, Germany's biggest bank, has ruled out a big US acquisition to expand its investment banking operations there, in favour of growth through its own efforts. Page 22

Ford seeks control of dealers
The restructuring of the US car retailing industry has taken an unexpected twist with an attempt by Ford Motor to take control of a group of its dealerships. Page 25

Top-level shake-up at Molson
Molson Companies, the diversified Canadian brewer, has launched a management and board shake-up. The reshuffle is to sharpen Molson's focus on beer operations. Page 25

British Biotech to launch first drug
British Biotech, the UK's largest biotechnology company, took a significant step closer to commercialising its first product with news of progress in clinical trials and a series of senior marketing appointments. Page 26

UK coach group in Nordic drive
National Express, the coach operator, is to follow rival Stagecoach to Scandinavia through a venture with a Norwegian partner. Page 26

Turkey launches $300m eurobond issue
Turkey launched its first dollar sovereign issue this year, a five-year $300m offer – raised from $250m on strong European demand. Page 28

Companies in this issue

Market Statistics

http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Degussa	78.70	+	1.70
Deutsche Bank	95.10	+	2.35
Hochtief	70	+	1.60
Veba	96.20	+	1.21
Falls			
BMW	1455	–	34
Viag	784	–	7.50
NEW YORK ($)			
Rises			
Dynamics Cp Am	52¼	+	8⅜
Ferro	34	+	2⅝
Grand Metro	38⅞	+	4¼
Vertione	58	+	3⅜
Falls			
Guangshen Rail	23⅝	–	1⅜
Johnson Inds	7⅛	–	⅛
LONDON (Pence)			
Rises			
Grand Met	591½	+	76½
Guinness	602½	+	86
Pan Andean	35	+	6
Yorkdyde	176	+	15
Falls			
Chemring	95	–	7½
Sunderland	445	–	39
TORONTO (C$)			
Rises			
Ashton Mining	7.65	+	1.00
Guardian Cap	16.00	+	1.95
TSB Intl	7.00	+	1.75
Triton Mining	4.85	+	0.75
Falls			
Eli Eco Logic	3.75	–	0.50
Teklogix	12.75	–	2.25

PARIS (FFr)			
Rises			
Accor	884	+	16
Air Liquide	897	+	22
Bouygues	537	+	15
Suez	305	+	11.20
Falls			
Pathe	1362	–	36
Seita	208.10	–	1.10
TOKYO (Yen)			
Rises			
Daishowa Paper	465	+	22
IBJ	1410	+	80
Kokuyo	2960	+	70
Nippon Meat Pk	1390	+	100
Tonen	1460	+	140
Falls			
Canon	3000	–	100
HONG KONG (HK$)			
Rises			
Amoy Prop	8.40	+	0.10
HK Telecom	15.10	+	0.60
Shaw Bros	8.05	+	0.30
Sime Dar	8.60	+	0.20
Falls			
Great Eagle	26.05	–	0.70
New Asia A	28.20	–	0.20
BANGKOK (Baht)			
Rises			
Interlife Ins	102.00	+	9.00
Inoue Rubber	13.75	+	1.25
Falls			
Oriental	104.00	–	13.00
Samaggi Ins	45.00	–	5.00
Srithai Super	94.50	–	10.50
The Pizza Co	120.00	–	15.00

New York & Toronto prices at 12.30.

Delta chief to step down

Retirement at the age of 55 takes US airlines and analysts by surprise

By Richard Tomkins in New York

Delta Air Lines, the third biggest US carrier, yesterday surprised the airline industry by announcing that Mr Ron Allen, chairman and chief executive for the last 10 years, will leave when his contract expires on July 31.

The company said Mr Allen was retiring, but, at 55, he is well short of the usual retirement age. Analysts were puzzled by his departure at a time when Delta appeared to be doing well.

Mr Raymond Neidl, an analyst at Wall Street investment bank Furman Selz, said: "If this had happened two or three years ago, I would not have been surprised. But he has got Delta into fighting shape by reducing its cost structure, standardising the fleet and starting a low-cost operation.

"All these factors have made Delta much more competitive against the network carriers and the start-ups."

Delta went through troubled times in the early 1990s because its high pay levels and costs made it uncompetitive with low-cost start-up carriers. It was also incurring heavy losses on European routes it took over from Pan American World Airways in 1991.

In 1994 Mr Allen announced a plan to slash $2bn a year from the airline's costs over the next three years through job losses, pay cuts and other measures.

Last month the company reported its eighth consecutive quarter of record operating profits.

Delta said its board had formed a search committee to find a successor to Mr Allen from inside or outside the company. It said Mr Allen would help with the search and would also serve as a consultant and advisory director to the board.

In a statement, Mr Gerald Grinstein, a board director who will chair the search committee, said: "Ron Allen has done a terrific job of leading Delta through the most difficult time in its history, and the company has emerged as a leader in world aviation."

Mr Allen said that his goal in the past three years had been to take Delta back to profitability and position it for growth. "Delta has realised great progress in both of these areas, and the company is in excellent condition," he said.

Mr Kevin Murphy, an analyst at Wall Street investment bank Morgan Stanley, said Mr Allen might have decided to unwind after taking Delta through a difficult period. "You should never forget that executives are people," he said, noting that Mr Allen has recently re-married.

Mr Allen joined Delta 34 years ago as a junior part-timer. He worked his way to become chairman and chief executive in 1987, signing a 10-year employment contract.

Germany's market for small stocks gets fresh boost

By Graham Bowley in Frankfurt, Chris Price in London and David Owen in Paris

Deutsche Börse, Germany's stock exchange, will announce tomorrow that two companies will this month launch on the country's new share market for smaller businesses, giving fresh impetus to the country's fledgling equity culture.

The move provides evidence of growing investor interest in the "Neuer Markt" for small but fast-growing German companies in spite of initial scepticism about its success. It will also boost the exchange's fight to keep companies listed in the domestic market after the move by some to US markets.

"This is what we needed to get it off the ground," a stock exchange spokesman said.

Other European countries are attempting to develop markets for small, fast-growing companies. There are also moves to try to link the different exchanges into a pan-European market.

In the UK, the Alternative Investment Market has been hugely successful since its launch nearly two years ago. Some 275 companies are listed on the junior market, which has a market capitalisation of £6bn ($9.7bn). More than £1.2bn has been raised by members in that time. The French nouveau marché, which celebrated its first birthday last month, got off to a slow start, finding the going difficult in the face of intensifying competition from the likes of the Brussels-based Easdaq, the pan-European exchange launched later in 1996.

It has also been criticised for its performance. At the time of its birthday, only 13 of the 23 companies it had attracted were quoted above their initial offer price.

The German exchange will announce tomorrow that a software company based in Germany and in the US will launch a new issue of shares on the Neuer Markt.

A second company, which specialises in waste-recycling, will relist from the exchange's less-successful market for middle-sized companies.

"Our target is to have 15 companies listed on the market by the end of the year," the spokesman said.

Veba aims for $2.3bn expansion in North America

By Tracy Corrigan in New York

Veba, the German conglomerate which will list its shares on the New York Stock Exchange in October, plans to spend DM4bn ($2.35bn) expanding its North American business in the next five years.

Mr Ulrich Hartmann, its chairman, said yesterday it would build through acquisitions and organic growth.

The company is targeting US expansion because of the size and flexibility of the market. It is "simply easier to achieve higher growth rates in the US", said Mr Hartmann.

The listing is designed not only to increase its US shareholder base, currently about 12.5 per cent, but also to increase broad recognition of Veba as it builds its US business.

Mr Hartmann described it as "one piece of the mosaic" of internationalisation, adding that he hopes US holdings will rise above 15 per cent following the listing. "Many US funds can only buy shares listed in the US," he noted.

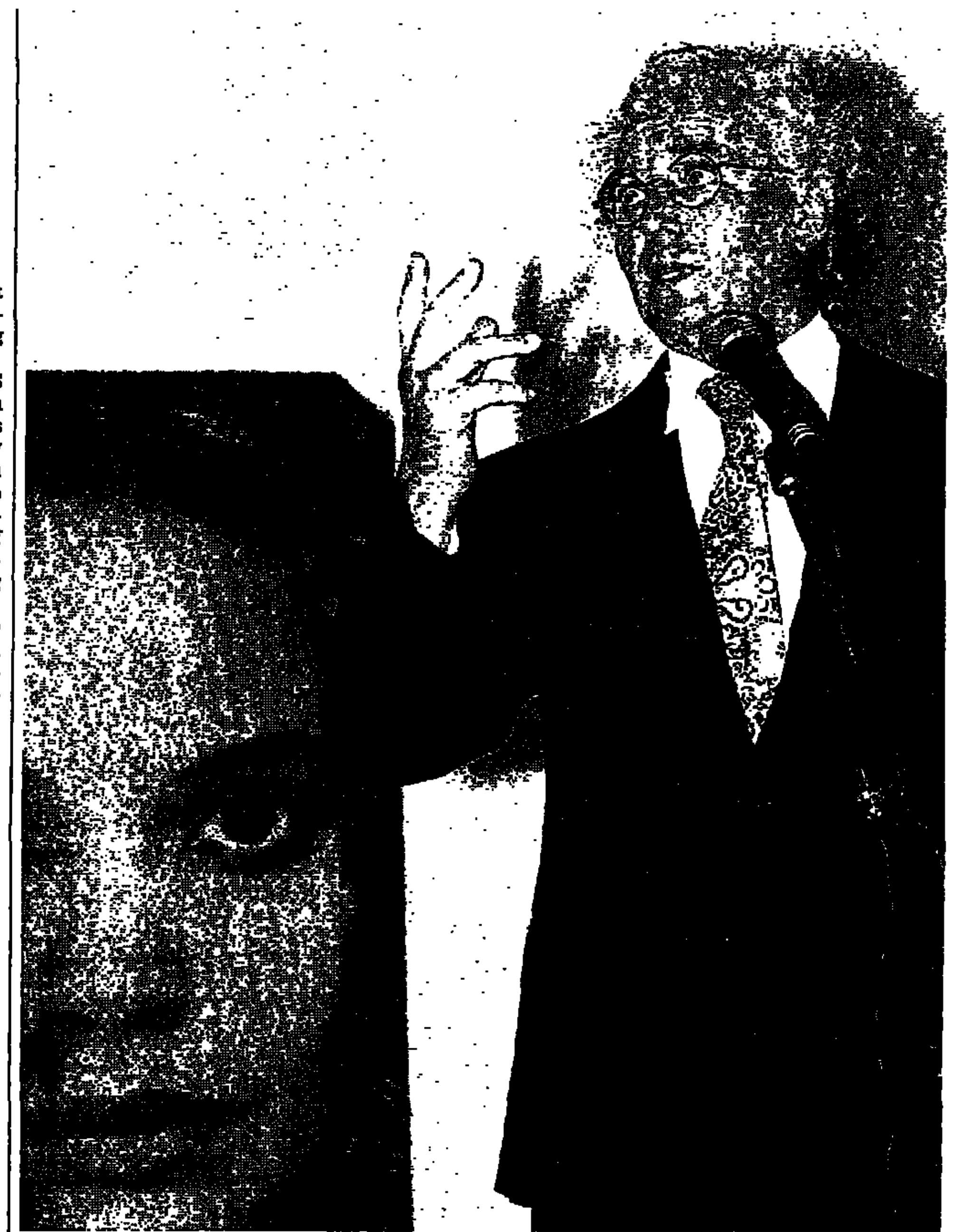
However, he stressed that the company is well capitalised and has no plans to raise any fresh funds in the US market. "I wouldn't rule out that we would raise capital in the future (if a big acquisition came along) but according to our current plans, we can finance any acquisitions ourselves," he said, adding that Veba has up to DM15bn available in cash and from existing credit lines.

Veba aims to build its US business in three areas. In chemicals, it plans to grow its phenals business with a new plant at an existing complex in Mobile, Alabama. It also intends to increase its presence in the transportation of electronic systems and components, and in manufacturing wafers for computer chips.

Mr Hartmann expects some "minor acquisitions", though he noted that chemicals acquisitions are overpriced in the US market.

US listings have become controversial among German companies because of their reluctance to comply with US accounting standards, though a growing number are shifting to international standards. In Germany, "it is always like a religious debate", said Mr Hartmann. "Veba early on decided to adopt US GAAP (Generally Accepted Accounting Principles). It thinks they are good rules: they are stricter than the German rules and clearer and more transparent for shareholders."

Veba started producing parallel reports meeting German and US rules last year. But unlike Daimler-Benz, which did not do this until after it had already listed in the US, "there was no big disparity", said Mr Hartmann.



Luciano Benetton, founder of the Italian clothing company, opens a Benetton store in Bucharest yesterday. A shirt from the shop will cost $80, a month's pay for the average Romanian Picture: AP

Wife of 'suicide' Bre-X geologist says he is alive

By James Kynge in Samarinda

An Indonesian woman who was married to Mr Michael de Guzman, one of two Bre-X Minerals geologists who claimed to discovered a record gold deposit in Indonesia, said yesterday she believes he is still alive, despite official statements that he plunged to his death from a helicopter.

Mrs Lilis de Guzman married the Filipino geologist – who is believed to have had up to five wives – last year. She said that she was prevented from seeing what was alleged to be his corpse after it was recovered from forest in Borneo and taken to the nearby town of Samarinda.

Last week, Bre-X's claim to have found the world's largest gold deposit at Busang was exposed as a fraud.

Local people said it would be highly irregular to deny a wife the right to see her husband's corpse. "I am confident that he is alive but I do not know where he is," said Mrs de Guzman in an interview at her house in Samarinda.

The reported death of Mr de Guzman, who initiated the Busang gold claim along with Mr John Felderhof, Bre-X's former head of exploration, has been the subject of much speculation.

The official version is that he jumped from a helicopter on March 19 while flying from Samarinda to Busang.

But many members of the mining community in Samarinda believe it is possible that his death was staged to allow him to disappear before the fraud was uncovered.

They cite inconsistencies in accounts of his death. First versions claimed that he fell – rather than jumped – from the helicopter. The early accounts also said the helicopter flew on to Busang after his plunge, rather than turning back to Samarinda, as is now asserted.

Mrs de Guzman's belief that her husband is still alive hinges on the fact that he seemed in fine spirits when he telephoned her on March 18.

She said he promised to take her to dinner in Samarinda on March 20 to celebrate her birthday. "If he was planning to commit suicide, why would he arrange dinner?" she asked.

Mrs de Guzman said her husband had just returned from a trip to Bre-X's head office in Canada. While abroad, he transferred enough money to a local bank to pay for a new four-bedroom house, which she said cost Rp295m ($120,000). Acquaintances said yesterday that his monthly salary was Rp17m ($7,000).

This announcement appears as a matter of record only. May 1997

TILE Giant
BATHROOMS

Management Buy-In

Structured and arranged by
NatWest Ventures

Equity provided by
NatWest Ventures

Senior debt provided by
Barclays Acquisition Finance

NATWEST VENTURES

NatWest Ventures Limited. Regulated by IMRO

Strong rally in crude oil prices

By Robert Corzine

Crude oil prices rallied strongly yesterday to levels last seen in the middle of March. Brent Blend for June delivery, the North Sea crude that serves as an international bellwether, was up 68 cents to $19.61 a barrel in late trading on London's International Petroleum Exchange.

West Texas Intermediate, the main US price marker, was also up sharply in midday trading on the Nymex exchange in New York.

Traders attributed the rally, which began at the end of last week, mainly to technical factors. There was also renewed interest in oil futures from some institutions with part of the rise attributed to speculative buying by commodity and hedge funds.

Last week the International Energy Agency, the Paris-based group which monitors world oil markets on behalf of the main industrialised countries, noted that a "fragile, but cautiously bullish" sentiment began to lift crude oil prices during the second half of April after a steady decline since January.

But the latest rally comes against a generally bearish background. The latest IEA monthly oil report noted that petroleum supplies in North America, Europe and Asia were higher than a year earlier. Stock levels have been one of the most widely watched indicators for future price movements.

Traders said other factors which helped underpin yesterday's rise in the Brent price included the onset of the annual maintenance season on North Sea oil platforms. A sharp fall in North Sea production can be expected over the next month or so.

Another factor was the threat of a fishermen's blockade of the Sullom Voe oil terminal in the Shetland Islands.

Commodities, Page 30

SGS SGS Société Générale de Surveillance Holding S.A.
8, rue des Alpes - 1211 Genève 1

NOTICE IS HEREBY GIVEN THAT THE

ANNUAL GENERAL MEETING

of the above Company will be held on Wednesday 4th June, 1997, at 3 pm at the Noga Hilton Hotel, Salle Ballroom (mezzanine), 19 quai du Mont-Blanc, Geneva.
The doors will open at 2 pm.
Access will be permitted to
- bearer shareholders, upon presentation of an admission card, at the entrance before 2.45 pm
- registered shareholders, upon placing, before 2.45 pm at the entrance, an admission card which will be exchanged for a voting card.
The doors will close at 3 pm precisely.

Ordinary Agenda:
1. Presentation of the Annual Report, the Consolidated Accounts and the Statement of Accounts for the year ended 31st December 1996. Auditors' Report
2. Appropriation of profits.
3. "Décharge" of member of the Board of Directors.
4. Election of Auditors.

Extraordinary Agenda:
5. Amendment of Statutes:
 - Amendment of art. 2, 1st par., art 5 bis,1st par., and art. 7, 1st par.
 - Deletion of art. 18, 1st par.

ANNUAL REPORT - AUDITORS' REPORTS
The Annual Report, the Consolidated Accounts and the Statement of Accounts for the year ended 31st December 1996 and the Auditors' Reports will be available for inspection at the head office of the Company from 13th May 1997. Each shareholder may request that a copy of these documents be sent to him; registered shareholders appearing on the register of shares as at 6th May 1997 will receive, directly, a copy of these documents.

REGISTERED SHAREHOLDERS
Registered shareholders appearing on the register of shares as at 6th May 1997, will receive, directly, a Notice of Meeting. Shareholders in respect of whom a registration would have been made during the period 6th May to 12th May 1997 will receive the Notice of Meeting at a later date. Shareholders entered on the register of shares during the period 12th May to 4th June 1997 will not receive the notice. Registered shareholders who will have sold their registered shares prior to the Meeting will not have voting rights in respect of those shares.

BEARER SHAREHOLDERS
The holders of bearer shares wishing to participate or be represented at the Meeting may obtain an admission card either by depositing their share certificates at the head office of the Company, or by sending to the Company a statement of deposit and holding duly executed by their bank of deposit. The deposit of share certificates and collection of an admission card may be made on any business day, until 27th May 1997 at the latest, at the head office of the Company between 9.30 and 11.30 am or otherwise by arrangement (Telephone +41-22-739.95.51, Share Registry). No admission cards will be available at the entrance of the Meeting. The shares deposited may be collected from the first business day following the Meeting.

REPRESENTATION
Shareholders not wishing to take part in the Meeting may be represented by another shareholder (in accordance with the provisions of the Statutes, registered shareholders may only be represented by another registered shareholder in possession of a written proxy) or by their bank of deposit. They may also be represented by a representative of the Company or, alternatively, designate Ms Dominique Brown-Berset, attorney-at-law, Froriep Renggli & Partners, 4, rue Charles-Bonnet, CH-1206 Geneva, an independent person pursuant to Article 689c CO, to represent them at the Meeting: in such instance, we would ask that registered shareholders address their admission card and proxy form or, in the case of bearer shareholders their admission card, directly to Ms Dominique Brown-Berset at the aforementioned address, until 27th May 1997 at the latest.

Deposit representatives within the meaning of Article 689d CO, are requested to inform the Company as soon as possible, and in any event not later than 4th June 1997 at the entry roster of the Meeting of the number, nature and nominal value of the shares they represent. Institutions subject to the Federal law on banks and savings institutions of 8th November 1934 as well as professional portfolio managers are considered as deposit representatives.

MINUTES OF THE MEETING
From the 11th June 1997, the resolutions of the Meeting will be available for inspection by shareholders at the head office of the Company.

The Notice of Annual General Meeting, together with all proposals of the Board of Directors is published in the Swiss Federal Trade Gazette, the official publication body for the Company, on the 13th May 1997.

Geneva, 13th May 1997 On behalf of the Board of Directors
Elisabeth SALINA-AMORINI, Chairman

COMPANIES AND FINANCE: EUROPE

BBV to control Argentine bank

By David White in Madrid

Banco Bilbao Vizcaya, of Spain, has taken a further big step towards strengthening its position in Latin America through a takeover in Argentina, which it said would give it effective control of the country's largest private-sector banking group.

Banco Francés del Rio de la Plata, an Argentine bank in which BBV holds a controlling 30 per cent stake, is to buy 72 per cent of Banco de Crédito Argentino.

BBV said it would have management control of the group created by the takeover. It would not comment on the details of the operation, however, or on Argentine press reports that estimated the purchase would cost $400m.

The takeover agreement means that BBV will, in less than than a year, have become the prime force behind the leading private-sector banks in three Latin American countries – Colombia, Venezuela and Argentina.

It bought its stake in Banco Francés from the Otero Monsegur family last October for $375m, its largest single investment in Latin America to date. The Argentine bank was then ranked number three in terms of total assets, deposits and profits.

BBV said the takeover would roughly double its deposit base in Argentina to $4.21bn and give it a market share of more than 6.5 per cent. It will enlarge its network from 93 to 207 branches, which it said would make it the largest of any Argentine private bank.

The takeover would create the third-largest retail banking network under BBV's control in the region, after Mexico, where it made its first large investment in 1995, and Venezuela.

BBV said the two Argentine banks made a good fit in their businesses, networks, systems and strategies. The merger would bring efficiency gains and create a universal banking group of the kind that had characterised its investments elsewhere in Latin America.

BBV's Latin American interests contributed 18 per cent of the group's pre-tax profits in the first quarter this year, which rose 36 per cent to Pta57.77bn ($403m). Analysts estimate that, with interest margins sharply higher than in the domestic Spanish market, Latin America's share of net interest income for the group will reach 30 per cent next year.

As well as making its first move into Argentina, BBV bought significant shareholdings last year in Banco Ganadero, the leading Colombian bank, and in Banco Provincial, the number one in Venezuela.

It also controls Banco Continental in Peru.

BBV's recent investment drive in the region – where, unlike Banco Santander, its Spanish rival, it started virtually from scratch – is one of the pillars of its "1,000-day programme" begun in 1995 to build up business volume and profits.

Postbank clears way for float

Sale is to proceed but the months of discord may cost Bonn dear

After months of haggling over a pact to use the counters of the German postal system to sell its services, Deutsche Postbank, the German postal savings bank, is ready to start down the road to privatisation.

According to Mr Wolfgang Bötsch, the Bonn post and telecommunications minister, the government "will do everything" to ensure the privatisation takes place this year.

"We want to place three-quarters of the shares as quickly as possible," he says. Until 1999, the government will hold 25 per cent of Postbank plus one share.

Mr Bötsch says the sale of the Postbank shares could yield "around DM3bn [$1.77bn]", a significantly more cautious estimate than the DM3.4bn-DM4bn previously signalled by Postbank. But if the cash is to flow this year into the Bonn government's coffers, Mr Bötsch and the bank must move fast.

With the departure of Günter Schneider (left), and the co-operation deal with Deutsche Post in the bag, Wolfgang Bötsch has pledged to complete the privatisation this year

Postbank must attract investing partners to help it develop its business before completing the flotation and listing of the remaining shares on offer in the final quarter of this year.

Postbank's path to privatisation has been anything but easy. Last week, Mr Günter Schneider, its chief executive, resigned rather than sign the co-operation agreement with Deutsche Post, the bank's publicly-owned sister.

Under the deal, Postbank will pay fees to the Post that fall on a sliding scale from DM1.14bn this year to DM785m in 2001.

When Postbank publishes its annual accounts later this month, it will report a net loss of DM1.26bn for last year. This will reflect a DM1.55bn provision to cover what it regards as extraordinary costs in the five years to 2001 arising from the deal allowing it to use the Post's counters.

The idea is that Postbank should start life as a privatised company with a clean balance sheet. The net loss will be balanced by drawing on reserves, rather than carried over into future years.

In turn, Mr Schneider's departure, although a reflection of the animosity that has existed between Postbank and Deutsche Post, should have no lasting impact on the bank's operations and privatisation because he was already due to retire at mid-year.

Two of Postbank's managing board members signed the co-operation pact with Deutsche Post and one of them, Mr Achim Scholz, later described it as "a fair compromise".

The co-operation pact with Deutsche Post envisages that it will acquire a 17.5 per cent stake in Postbank in January 1999 from the shares still owned by the federal government at that date. It has been agreed that the Post will not be able to increase this stake, either directly or indirectly, and that it will have no control over Postbank's business.

While Postbank has been preoccupied with its fight for independence, there have been worrying signs of declining interest among financial institutions that were expected to buy a total of 35 per cent of its shares as investing partners.

Postbank officials say BHF-Bank of Frankfurt is no longer interested in taking a stake. It is no longer clear whether Volksfürsorge, the insurance group, plans to get involved.

Of the three groups named by Postbank as potential partners in January last year, only BHW, the housing finance group, still seems firmly committed.

Meanwhile, time is running short. Postbank's original plan envisaged a "beauty contest" and selection of the banks to head the consortium for privatisation by the end of this month.

The arguments for selling the shares would be marshalled in July. Pricing and the publishing of a prospectus were scheduled to follow in September with payment for the shares and the start of trading due in December.

But in spite of recent developments, neither the finance ministry nor the post ministry have provided details of the privatisation process.

Yesterday, Mr Bötsch said his estimate of DM3bn from the planned sale of 75 per cent of Postbank shares reflected his natural caution: "I would rather predict something and achieve more than make an announcement and underperform," he said.

However, if his estimate turns out to be true, it will be hard to avoid the conclusion that months of discord between the bank and the Post have cost Bonn dear.

Peter Norman

Deutsche Bank rules out US buy

By Andrew Fisher in Frankfurt

Deutsche Bank, Germany's biggest, has ruled out a big US acquisition to expand its investment banking operations there, in favour of growth through its own efforts.

Mr Hilmar Kopper, chairman, said: "We are not on the look-out." Mr Kopper, who retires as chairman after the annual meeting on May 20, to be succeeded by Mr Rolf Breuer, said an expensive takeover of another US investment bank "would be the stupidest thing we could do today". The bank would rely on organic growth.

Deutsche's name has recently been linked with several US investment houses, including Lehman Brothers and Salomon Brothers.

Mr Kopper said Deutsche Bank aimed to be among the top five global investment banks. But "we will never be able to push aside the big Americans in this market," he added.

Nor did the German bank aspire to be in the top US investment banking league, dominated by such houses as Goldman Sachs and Merrill Lynch. "But being just below is just as good."

Despite Mr Kopper's remarks, Mr Dieter Hein, banking analyst at BHF-Bank in Frankfurt, did not rule out a later acquisition in US investment banking: "I would think the last word has not yet been spoken on this," he said.

Mr Kopper did not rule out smaller purchases, possibly in asset management.

Hilmar Kopper interview, Leader page

CHASE

The Chase Manhattan Bank is pleased to announce that with effect from

Monday May 19, 1997

the London offices of

Global Trust Services

are relocating to the address as set out immediately below:

Trinity Tower
9 Thomas More Street
London E1 9YT
Switchboard: +44 171 777 2000
Fax: +44 171 777 5410
Telex: 8954681CMB G

Accordingly, the new location will represent the official address of record for all new and existing appointments, whereby Chase Manhattan Trustees Limited and/or The Chase Manhattan Bank act as Trustee, Fiscal Agent, Principal Paying Agent and in all related and associated capacities, including Agent for Service of Process, for Eurobonds, Medium Term Notes, Euro Commercial Paper, Certificates of Deposit and other Instruments.

Delivery and presentation of Coupons, Bonds, Commercial Paper and Certificates should be made at:

Window and Vault
Crosby Court
38 Bishopsgate
London EC3N 4AJ

Telephone, fax and SWIFT numbers for Operations and Administration will remain unchanged.

The Chase Manhattan Bank is incorporated with limited liability in the USA.

Notice

concerning the

4¼% Deutsche Mark Bearer Notes of 1996/2003
(German security identification number 132 950)
with Appertaining Warrants of
Daimler-Benz Capital (Luxembourg) AG
guaranteed by Daimler-Benz Aktiengesellschaft, Stuttgart

Pursuant to § 3 (2) (a) of the Terms and Conditions of the Warrants for the above notes, the following adjustments are to be made on the basis of the pre-emptive rights traded in the period from April 28, 1997 to May 9, 1997 for the subscription of the *5¾% Deutsche Mark Bearer Subordinated Mandatory Convertible Notes of 1997/2002 with mandatory conversion at maturity into ordinary bearer shares of Daimler-Benz AG:*

1. If the option rights are exercised by payment in cash (§ 3 (1) (a) of the Terms and Conditions of the Warrants), the option price will be reduced from DM 98.65 by DM 0.20, i.e. the average price of the pre-emptive rights during the entire period in which the pre-emptive rights are traded, rounded up to the nearest DM 0.10, and will amount to DM 98.45 for option rights exercised as from May 14, 1997 inclusive.
2. If the option rights are exercised by transferral of the notes with appertaining claims (§ 3 (1) (b) of the Terms and Conditions of the Warrants), the option price will be reduced from DM 95.07 by DM 0.20, i.e. the average price of the pre-emptive rights during the entire period in which the pre-emptive rights are traded, rounded up to the nearest DM 0.10, and will amount to DM 94.87 for option rights exercised as from May 14, 1997 inclusive.

Stuttgart, May 1997
Daimler-Benz Aktiengesellschaft
The Management Board

SCHRODER INTERNATIONAL SELECTION FUND
Société d'investissement à capital variable
Registered Office: 5, rue Höhenhof, L-1736 Senningerberg
R.C. Luxembourg B8202

NOTICE TO SHAREHOLDERS

1. ANNUAL GENERAL MEETING OF SHAREHOLDERS
of Schroder International Selection Fund will be held at its registered office at 5, rue Höhenhof, L-1736 Senningerberg, at 11.00 a.m. on Monday 2nd of June, for the purpose of considering and voting upon the following matters:

AGENDA

1. Acceptance of the Directors' and Auditors' Report and approval of the financial statements for the year ended 31 December 1996.
2. Distribution of final dividend
3. Discharge of the Board of Directors and Auditor
4. Re-election of Directors
5. Re-election of Auditor
6. Any other business

2. VOTING
Resolutions on the items on the agenda will require no quorum and will be taken on the majority of the votes expressed by the shareholders present or represented at the meeting.

3. REGISTERED SHAREHOLDERS
Registered shareholders who cannot attend the meeting in person are invited to send a duly completed and signed proxy form to the registered office of the company to arrive no later than 28 May 1997.

4. BEARER SHAREHOLDERS
In order to take part in the meeting of 2nd of June 1997, the owners of bearer shares must deposit their shares five business days before the meeting at the registered office of the Company as set out above, or with:

Securities Department
Schroder Investment Management Limited
33, Gutter Lane
London EC2V 8AS

Proxy forms for the meeting will be sent to registered shareholders with a copy of this Notice and can be obtained by bearer shareholders from the registered office.

Schroders
May, 1997 The Board of Directors

Appointments Advertising
appears in the UK edition every Monday, Wednesday & Thursday and in the International edition every Friday.
For further information please contact:
Toby Finden-Crofts
+44 0171 873 4027

CITIC Pacific Finance Limited
U.S. $200,000,000
Guaranteed Floating Rate Notes due November 1997
Guaranteed by
CITIC Pacific Limited

In accordance with the terms and conditions of the Notes, the rate of interest applicable for the interest period 17th May, 1997 to 12th November, 1997 is 6.53125 per cent. per annum. Interest payable on 12th November, 1997 per Note of U.S. $50,000, U.S. $100,000 and U.S. $500,000 will be U.S. $1,669.10, U.S. $3,338.19 and U.S. $16,690.97.

Bankers Trust Company, Hong Kong Agent Bank

NPK Vintage Limited
Covered Warrants
to purchase shares of common stock of
Katakura Chikkarin Company Limited
issued with
U.S. $47,750,000
4½ per cent. Secured Notes due 1999
Revision of the Purchase Price

NOTICE IS HEREBY GIVEN that pursuant to Condition 2 (A) of the Terms and Conditions of the Warrants set out in the First Schedule to the instrument dated 27th April, 1995 constituting the captioned covered Warrants (the "Warrants"), the Purchase Price for the Warrants shall be revised downward as follows:

Purchase Price before revision: ¥776.20 per Share
Purchase Price after revision: ¥621.00 per Share
Effective date of the revision: 12th May, 1997 (Japan time)

NPK Vintage Limited
Ugland House
South Church Street
Grand Cayman
Cayman Islands

13th May, 1997 NPK Vintage Limited

To place an advertisement within the
Commercial Property Section
Or to receive further information on our special features
please contact Tina McGorman on 0171 873 3253
fax 0171 873 3098 e-mail: tina.mcgorman@ft.com
Financial Times

London Forfaiting Asia Limited

COMPANIES AND FINANCE: EUROPE

Kemira sells fibres unit to Indonesian rival

By Jenny Luesby

Kemira, the Finnish chemicals company, has agreed to sell its troubled fibres division to an Asian rival – a move that marks a new development in the regional shift in the industry.

The deal will be the first acquisition of a west European viscose producer by an Asian competitor.

It also turns Indorayon, of Indonesia, into the world's fourth-largest viscose producer and reveals growing Asian interest in gaining control of Europe's stagnant market.

Rapid growth in the Asian market has already seen Birla, of India, overtake Lenzing, the Austrian group, as the world's largest viscose producer. Courtaulds, of the UK, which invented the fibre in 1904, follows in third position.

Since 1990, Asian viscose capacity has risen more than 40 per cent, to an estimated 1.2m tonnes a year. At the same time, European production has been falling.

In the last few months alone, producers in the UK, Germany and Spain have announced plant closures that will cut Europe's total capacity a further 20 per cent, to about 300,000 tonnes.

The closures come as European producers struggle to break even. Oversupply has led to rock-bottom prices, with Kemira among the hardest hit.

The Finnish company has neither the most efficient plant in Europe nor any technological edge.

As a result, its fibres division has recorded operating losses in both of the last two years, with sales down 7 per cent in 1995 and a further 21 per cent last year.

Almost a year ago, the group announced a cost-cutting programme in the unit, shedding 70 of its 510 employees in an effort to save FM15m ($2.9m). However, it had already decided that viscose was not one of its core interests.

Kemira has yet to agree a final price with Indorayon, but the two companies said yesterday they aimed to finalise the sale "within one to two months" and transfer ownership of the business in the first half of 1997.

Mr Brett Hutton, finance director of Indorayon, said the Asian company's main motive for the acquisition was to "buy European market share".

"Kemira has a well-established and mature infrastructure and sales. We could not possibly replicate that quickly," he said. Indorayon was also interested in the potential transfer of skills and technology.

Mr Hutton acknowledged the market was not an easy one, "but we are taking a very long-term view", he said.

Indorayon is owned by April, a Singapore-based pulp, paper and fibres group with sales last year of about $500m. April is listed on the New York Stock Exchange.

'Early action' promised at P&U

By Daniel Green

Mr Fred Hassan, the new chief executive of Pharmacia and Upjohn, the troubled drugs company, said yesterday his main tasks were to "contain erosion and stabilise the situation".

Without giving details, he said he would "be taking early action and dealing with pressing issues over the next few weeks".

Mr Hassan takes over the job four months after the abrupt departure of his predecessor, Mr John Zabriskie, after the company issued two profits warnings in quick succession.

P&U has since issued a third, with executives blaming the difficulties of managing a cross-cultural US-Swedish merger, and competition for the company's older drugs.

Mr Hassan said his multicultural background would help him manage P&U. He was born in Pakistan, trained in the UK and has worked for both Sandoz, the Swiss drugs company, and, most recently, American Home Products.

His optimism was based, he said, on his view that the company was in the top 10 in the pharmaceuticals industry for research and development, compared with 17th in terms of sales.

EUROPEAN NEWS DIGEST

Metsä-Serla slides but predicts upturn

Finnish forestry group Metsä-Serla yesterday shrugged off a heavy fall in first-quarter profits, saying it saw improved profitability for the rest of the year. Profits after financial items fell 46 per cent, from FM239m in the 1996 first quarter to FM129m ($25.2m). Earnings per share were FM0.22 against FM1.12.

The company blamed weak prices, particularly in market pulp and coated magazine paper. However, it expected "favourable profitability in the second half of 1997, providing the positive market development continues," saying: "The market for magazine papers is now improving, and both prices and profitability are expected to be better during the second quarter." Mr Erkki Varis, chief executive, said prices had turned upwards and were expected to continue rising in the coming months as inventories were sold down. He estimated that North American and Scandinavian pulp stocks fell by about 200,000 tonnes in April.

Group net sales for the quarter rose to FM3.93bn, from FM3.75bn last time, with the rise attributed partly to acquisitions. The company said the Simpele and Joutseno mills acquired from UPM-Kymmene last year would be consolidated from March 31. *Agencies, Helsinki*

SGS wins ruling on buy-back

Société Générale de Surveillance, the Swiss testing and inspection company, has won another round in its long-running battle to overcome the tax rules which prevent Swiss companies from buying back their shares. The Swiss Federal Appeals Commission for Tax Matters has upheld SGS's view that issuing put options to buy back its own shares does not represent a taxable distribution subject to the 35 per cent withholding tax.

SGS has been leading the fight for tax-efficient share buy-backs in Switzerland. In 1993, it bought back 5 per cent of its shares by issuing all shareholders with tax-free put options. This made it the first Swiss company to organise a share buy-back where all shareholders were treated equally. However, the Swiss tax authorities subsequently changed their minds and ruled that future issues of put options should be treated as a taxable distribution.

SGS shares, which have substantially underperformed the market this year, yesterday jumped SFr75 to SFr3,115. However, SGS played down the significance of yesterday's announcement, which it termed as a "step forward" rather than a "major breakthrough". *William Hall, Zurich*

Investors back BHF board

BHF-Bank, the troubled German bank which is seen as a takeover candidate, has been reassured by its controlling shareholders that they will not sell their stakes while the bank is working to improve its performance. Mr Ernst Michel Kruse, the new chairman, said yesterday the big shareholders – including the Allianz and Alte Leipziger insurance groups, Munich Reinsurance and DG Bank – had told him they would back the management.

"I wouldn't have gone to the trouble of packing and unpacking if I had to worry about whether the shareholders would bail out on me," said Mr Kruse, who was formerly in the US. "I have control of how and when we look for change," he added. "We have to keep asking how we as a small bank can compete against global institutions." Mr Kruse will have the opportunity at today's annual meeting to outline his strategy. Last year, operating profits fell 5 per cent to DM358m ($211m), with the bank's problems arising mainly from its stake of nearly 50 per cent in Agiv, the holding company, which failed to pay a dividend. *Andrew Fisher, Frankfurt*

Generali more than doubles

Assicurazioni Generali, Italy's largest insurer, yesterday said its 1996 consolidated net profits more than doubled to L1,437.7bn ($856m) over the previous year's L696bn, boosted by a gain from its sale last September of an 11 per cent stake in Axa back to the French insurance group.

Excluding the gain, consolidated profits would have risen 14.3 per cent to L880bn last year. Generali's parent company saw its net profits rise from L482.7bn in 1995 to L519.7bn last year. The dividend is unchanged at L375, but this represents a 10 per cent rise after taking account of last year's scrip issue. *Paul Betts, Milan*

■ Shareholders in Axa-UAP last night formally approved the merger of the two French insurers.

Profits decline hits Leica shares

By Graham Bowley in Frankfurt

Leica Camera, the German camera and optical company which came to the stock market last autumn, dented investor confidence yesterday when it announced a 7.4 per cent decline in operating profit to DM15.2m ($9.3m) in the year to March.

The results, which were significantly below market expectations, prompted a sharp drop in the share price, which fell DM6.80, or about 13 per cent, to DM43.50 by the end of floor trading in Frankfurt.

The company blamed unexpected delivery problems connected with its new lens system, as well as difficult trading conditions in the German compact camera market.

However, some analysts remained upbeat. "With the long-term fundamental story intact and a strong increase in profit expected for the current year, we would regard share price levels of between DM42 and DM45 as interesting buying opportunities," said Mr Ingbert Faust, of UBS in Frankfurt.

Mr Faust said consumers' response to the company's new products was "extremely positive". UBS had predicted an annual operating profit of DM22.8m.

The company said sales rose 10.7 per cent in the year to DM265.6m, with the increase attributed to growth in the US and Asia.

Leica said the outcome supported its strategy of expansion in Asia and the US. Sales in Asia rose 41 per cent to DM63.2m, while US sales increased to DM34.8m, up 47 per cent on the year.

By contrast, the consumer climate in Germany remained difficult, leading to a 6 per cent drop in domestic sales to DM94.8m, the company said.

But Mr Klaus-Dieter Hofmann, chairman, remained optimistic about the current financial year, which he said had begun well.

"We expect double-digit sales growth in 1997-98. This and the improvement in margin caused by our new products make us confident that the Leica Camera Group will achieve good results," he said.

The company proposed a dividend of DM1 per share.

Mr Faust at UBS said he expected the group to achieve an operating profit of DM24.5m. "There is potential for profit growth as well as lower costs this year after one-off costs last year," he said.

Sales abroad boost Telefónica

By Tom Burns in Madrid

Telefónica, the Spanish telecoms operator which was fully privatised in February, lifted first-quarter net attributable profits 15.7 per cent to Pta27.8bn ($194m).

Consolidated revenues were Pta552.2bn, 20.8 per cent above those of the first three months of 1996.

The group's profitability was fuelled by its international division, where revenues from the clutch of Latin American operators controlled by Telefónica rose 46.7 per cent to Pta108.4bn. Lines operated by Telefónica Internacional (Tisa) in Latin America rose 22 per cent to 10.5m.

Tisa's business represented 17 per cent of the group's total revenues, up from 14 per cent a year ago.

The growth of the Latin American market is of particular interest to British Telecom and MCI, of the US,

Juan Villalonga: cemented Concert alliance last month

the partners in the Concert joint venture, which formed a strategic alliance last month with Telefónica after months of negotiations with Mr Juan Villalonga, Telefónica chairman.

As part of this agreement, Tisa and MCI are setting up a pan-American joint venture to exploit a Latin American market which is valued at $36bn and is expected to grow to $60bn by 2000.

Revenues from basic telephony in Spain were up 12.8 per cent to total Pta368.3bn. Telefónica is confident that the continued growth of the domestic market, where telephone penetration and line usage is lower than the EU average, will offset imminent competition in fixed-line telecommunications.

Three consortia, backed by international operators, are preparing bids to acquire Retevisión, the state television signals transmitter, which is scheduled to provide a rival service to Telefónica in Spain before the end of this year. The domestic telecoms sector will be wholly deregulated in December next year.

Telefónica's results were further boosted by its cellular division, which has more than doubled its client base over the past year to 2.5m users. Revenue from mobile telephony in Spain was up 68 per cent to Pta82.8bn and contributed 13.2 per cent to the group's total revenues, up from 9.5 per cent at the end of March 1996.

How do you tell a good vintage year?

By the result.

• Consolidated balance sheet total: DM 360.5 billion (+13.2%)
• Total lending volume: DM 209.5 billion (+12.6%)
• Total deposits: DM 199.7 billion (+10.5%)
• Own Issues outstanding: DM 123.6 billion (+17.8%)
• Capital & Reserves: DM 16.2 billion (+15.6%)

• Net income for the year: DM 453.8 million

• Allocation to reserves: DM 362.8 million
• Dividend: 7%
→ Generated by 5360 employees

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eMail: kontakt@blb.de

Bayerische Landesbank

NOTICE OF EARLY REDEMPTION

To the Holders of

Atlantic Richfield Company

(the "Issuer")

U.S.$250,000,000 10¼% Notes due July 2, 2000

(the "Notes")

NOTICE IS HEREBY GIVEN that pursuant to Condition 7(a) of the Notes all of the outstanding Notes will be redeemed by the Issuer on July 2, 1997 (the "Redemption Date"). The Notes will be redeemed at 101.5 per cent of their Principal Amount together with accrued interest to the Redemption Date. In respect of a Bearer Note, payment will be made by a US dollar check drawn on or by transfer to a US dollar account maintained by the payee with a bank in New York City upon presentation and surrender of the Note together with all Coupons appertaining thereto maturing on or after the Redemption Date at the specified office of any of the Paying Agents listed below. Payments of principal and interest on any Registered Notes will be made to the person appearing as the holder of record as of close of business June 17, 1997 by US dollar check drawn on or by transfer to a US dollar account maintained by the payee with a bank in New York City against surrender of the Registered Note at the offices of the Fiscal Agent. Interest on the Notes shall cease to accrue thereafter and the Coupons for any such interest maturing after the Redemption Date shall be void, irrespective of whether or not such Notes and Coupons have been surrendered for payment. The Notes are being redeemed pursuant to the provisions of the Fiscal Agency Agreement dated as of July 2, 1985, between the Issuer and Morgan Guaranty Trust Company of New York.

FISCAL AND PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

PAYING AGENTS

Banque Paribas Luxembourg
10A Boulevard Royal
L-2093 Luxembourg

Morgan Guaranty Trust Company of New York
14 Place Vendôme
Paris 75001
France

Morgan Guaranty Trust Company of New York
Zweignierderlassung Frankfurt
Borsenstrasse 2-4
60313 Frankfurt

Morgan Guaranty Trust Company of New York
Avenues des Arts 35
B-1040 Brussels

Swiss Bank Corporation
Paradeplatz 6
Zurich
CH-8010 Switzerland

Banque International a Luxembourg S.A.
2 Boulevard Royal
L-2953 Luxembourg

ABN-AMRO Bank N.V.
Foppingadreef 22
1102 BS
Amsterdam
1017 CE - Netherlands

ALTANTIC RICHFIELD COMPANY
By: Morgan Guaranty Trust Company of New York
as Fiscal Agent

Dated: May 13, 1997

SOLVAY

Société Anonyme
Registered Office: 33, rue du Prince Albert, Ixelles (Brussels)
Brussels Trade Register No. 5554

The list of attendees, closed in accordance with legal provisions three days prior to the Extraordinary General Meeting of 13th May 1997, has revealed that the quorum required by law will not be reached. Therefore, the meeting will not be in a position to pass the resolutions put on its agenda.
As a result, a new Extraordinary General Meeting shall be convened, which shall pass the relevant resolutions irrespective of the number of shares represented.
It will be held immediately prior to the Ordinary General Meeting of 5th June 1997.

Shareholders are hereby invited to attend:

1. The Ordinary General Meeting which be held on *Thursday 5th June 1997 at 10 a.m.*, 44, rue du Prince Albert at Ixelles (Brussels) to transact the following business:

Agenda

1. Special report in accordance with article 60 of the Belgian Company Law, reports of the Board of Directors on the operations of the financial year 1996, reports of the External Auditor.
2. Approval of the Annual Accounts for the financial year 1996 - Distribution of net earnings and declaration of dividend.
3. Discharge to be given to the Directors and to the External Auditor for their acts during the financial year.
4. Board of Directors
   a) Appointment of a Director to replace Mr. André Ganshof van der Meersch who will relinquish his position in conformity with the rules.
   b) Appointment of four Directors to replace Messrs. Yves Boël, A. Michielsen, Viscount Etienne Davignon and Mr. Kenneth Minton, who terminate their term of office and, being eligible, have offered themselves for re-election for a new term of six years.
5. External Auditor
   - Appointment of a substitute External Auditor to replace *Mr. Marcel Van Acoleyen, who terminates his term of office* and, being eligible, has offered himself for re-election for a new term of three years.
6. Other business.

2. The second Extraordinary General Meeting which will be held on Thursday 5th June 1997 at 11.30 a.m., following the close of the Ordinary General Meeting, 44, rue du Prince Albert at Ixelles (Brussels) to transact the following business:

Agenda

1. Increase of the capital by incorporation of reserves (article 5 of Solvay's Articles of Association).
2. Division of the share value by ten (articles 5 and 6 of Solvay's Articles of Association) and conferring of powers of execution.
3. Modifications to the Articles of Association justified by the laws of 7th and 13th April 1995 on commercial companies (articles 1, 20, 21, 37 and 38 of Solvay's Articles of Association).
4. Conferring of powers to adapt the Dutch version of Solvay's Articles of Association to the requirements of the Flemish Government's decree of 30th May 1996.

In compliance with legal stipulations, the complete agenda with resolution propositions are published notably in the following Belgian daily newspapers: le Moniteur belge, l'Echo and De Financieel-Economische Tijd.

The Board of Directors hereby informs the holders of bearer shares that the following formalities must be observed in order to attend these meetings.

They are asked to lodge their shares temporarily and to have them deposited at the Registered Office of our company or at J. Henry Schroder Wagg & Co Ltd., by Friday 30th May 1997 at the latest.

The bank mentioned above is authorized to designate other establishments where Solvay shares may also be lodged validly. The list of these establishments will be published in due time through the bank.

Proxies must reach our Registered Office by Friday 30th May 1997 at the latest.

It is recalled that, in conformity with Article 78 of the Belgian Company Law, any shareholder is entitled to obtain free of charge, on production of his share, a copy of the annual accounts, of the reports of the Board of Directors and of the External Auditor.

Debenture holders, wishing to attend these meetings, are asked to comply with the same formalities as those imposed on shareholders.

The Board of Directors

NOTICE OF EARLY REDEMPTION
To the Holders of
SWEDBANK
Sparbankernas Bank
(the "Issuer")
US$100,000,000
Subordinated Floating Rate Notes due 2002
(the "Notes")

NOTICE IS HEREBY GIVEN that all of the outstanding Notes will be redeemed by the Issuer on June 30, 1997 (the "Optional Redemption Date"), pursuant to Condition 6(c) of the Terms and Conditions of the Notes. The Notes will be redeemed at their principal amount together with accrued interest to the Optional Redemption Date.

Payment of principal and interest will be made against presentation and surrender of the Notes and interest coupons appertaining thereto at the specified office of any of the Paying Agents listed below.

Principal Paying Agent
Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

Paying Agents
Banque Paribas Luxembourg S.A., 10A Boulevard Royal, L-2093 Luxembourg
Morgan Guaranty Trust Company of New York, Avenue des Arts, 35, B-1040 Brussels

SWEDBANK
Sparbankernas Bank
By: Morgan Guaranty Trust Company of New York
as Principal Paying Agent Dated: May 13, 1997

Private Health Insurance

The above survey will now be appearing within the Financial Times on

23rd May 1997

and not 22nd May 1997 as originally planned.

For further information please contact:

Tracey Endacott
+44 (0)171 873 4356

FT Surveys

COMPANIES AND FINANCE: ASIA-PACIFIC

Housing weakness drags down CSR

By Nikki Tait in Sydney

Profits at CSR, the Australian building products, aluminium and sugar producer, slumped more than a third to A$212.2m (US$165m) in the year to end-March, as the company battled tough trading conditions in most of its main markets.

In 1995-96, the company made A$320.1m after tax. The profits decline came on the back of virtually static sales, at A$6.13bn compared with A$6.14bn a year ago.

CSR is cutting its final dividend to 9 cents a share, from 15 cents previously. This leaves the total payout for the year down 8 cents, at 21 cents a share.

The company blamed the poor results on continued weakness in the Australian housing market – where housing starts fell 12 per cent, after last year's 27 per cent decline – and price competition in both the Australian and Asian building materials markets.

This led the building products division to report operating profits of A$41.4m, after A$97.9m a year earlier, while the timber products unit – which CSR plans to restructure but retain – slumped from A$35.2m to A$4.7m.

The construction materials unit made A$71.8m, down from A$84.5m previously.

CSR said raw sugar prices had also declined, by about 10 per cent, and that earnings from these interests fell from A$84m to A$73.6m. The aluminium division saw prices fall 12 per cent overall, cutting earnings from A$168.7m to A$129.6m.

The one division to to report profits progress was CSR America, where earnings rose from A$185.9m to A$203.4m. The unit, which takes in building material interests from plasterboard to pipes, benefited from "add-on" acquisitions, but CSR also said that its markets remained strong.

Group restructuring costs rose from A$9m to A$22m, while the profit on the sale of surplus assets slipped from A$32m to A$3m. However, CSR said the restructuring programme had led to the sale of A$240m of "non-core" assets last year, and that it was still negotiating the sale of its American Aggregates business.

Mr Geoff Kells, a director, held out the possibility of recovery in the current year. "We expect better results in the year ahead," he said, adding that he anticipated "modest market recovery" in the Australian construction industry, continued "healthy" activity in the US, and the benefits of previous restructuring moves.

He warned that export returns from sugar and aluminium would be lower "unless markets improve significantly".

TI pulls the plug on Alphatec

US group's withdrawal from projects worth $1.4bn is a blow to the Thai electronics company

The Alphatec Group, led by Mr Charn Uswachoke, the Thai electronics entrepreneur, has issued an ultimatum to the Thai government: bail us out or the country will be permanently relegated to the low end of high-technology manufacturing.

The call came on the day Texas Instruments of the US pulled out of projects with Alphatec worth $1.4bn. Alphatec has projects worth $2.3bn under construction, including Thailand's first two "wafer fabs" which produce the essential building blocks for computer chips.

The group is short of at least $260m in equity and $990m in debt financing, and if no one comes to the rescue by the year's end, Alphatec's semiconductor empire – along with many of Thailand's high-tech aspirations – could come crashing down.

Mr Bob Mollerstuen, chief operating officer of Alphatec, says: "We have to have a new foreign partner" to replace Texas Instruments at the Alpha-TI wafer factory and to finish the Submicron wafer plant.

"But the bottom line is that the integrated circuits industry will not prosper in Thailand without government involvement on the level of Singapore, Taiwan and Korea," he says, referring to multi-million dollar government programmes in those countries to get wafer factories up and running.

Computer parts and equipment are already Thailand's largest export, but those exports mainly involve assembling imported components and do not help Thailand move up the value-added ladder.

Mr Charn, whose companies control about 10 per cent of the world's semiconductor market, aimed to change that with the introduction of the wafer factories, to be built at his privately developed high-tech industrial park, Alphatechnopolis. With the two wafer factories, Alphatec was going to do what no other semiconductor company in the world can: produce customised chips seamlessly within one operation and halve normal production times of 20 weeks.

But a slumping stock market, and Mr Charn's decision to hold such large stakes in the start-ups personally, rather than integrate them into his listed and highly profitable Alphatec Electronics, has forced the group to dodge cash crises.

Submicron is the most immediate concern. Mr Charn needs to raise about $160m in equity to tap loan agreements worth about $400m to start up the plant.

The plan was to raise that equity on the Thai stock market. But by the time the public offering was ready last December, the market was in free-fall and the appetite for new issues had dried up. That failure to list delayed all kinds of funding plans, according to Mr Leslie Merszei, a former personal adviser to Mr Charn who has recently been made chief financial officer.

Mr Charn once said his relationship with his bankers, principally Bangkok Bank and Nakornthon Thai Bank, was so good that the complex financial details were "just a formality".

The decision to bring in Mr Merszei full-time, and Mr Charn's inability to coax bridge financing out of those banks, indicates that such relationships are starting to be strained, as Thailand's financial crisis forces banks to be cautious.

A plan launched in March to bring Submicron into a consolidated Alphatec Group and issue American Depositary Receipts in New York was derailed in the same month, when investors halved Alphatec Electronics' share price in a matter of weeks on fears they would have to pay for Submicron's estimated first-year losses of at least Bt1.27bn ($49m).

With Alphatec's price plunging, the share swaps needed for the consolidation became impossible.

That inability to consolidate eventually cost Alphatec the Texas Instruments deal. Mr Charn had personally to come up with $100m in equity, and having failed to raise money in the US he lacked the proceeds to keep the project alive.

The Thai government's National Electronics and Computer Technology Center has a plan, awaiting cabinet approval, to buy 25 per cent of what was called Alpha-TI, and 10 per cent of Submicron.

Yet the Thai government, which is about to run its first budget deficit in more than a decade, has no money – and other ideas. Not long ago, Mr Korn Dabbaransi, industry minister, said the government was going to help the textile and footwear industries, because it wanted to boost exports immediately, while investments in high-tech would take years to pay off.

When reminded of the minister's remarks last week, Mr Charn nearly leapt out of his chair. "He might have said that but he didn't mean it," he growled. "If they decide to rely on low-tech industries, the country won't survive."

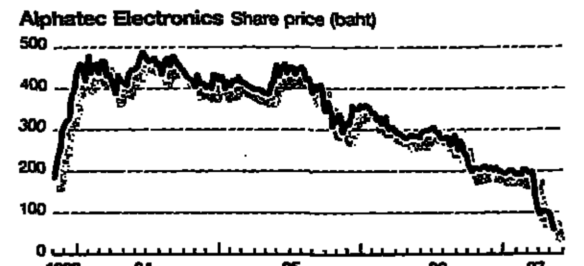
Ted Bardacke

Dreams and realities

Company	Business
Alphatec Electronics	IC packaging & testing
Alphasource Manufacturing	Telecom equipment
Submicron	Wafer fabrication*
Alpha-TI	Wafer fabrication*
Alpha Memory	IC packaging & testing*
NS Electronics	IC packaging & testing
Thai Micro Systems	IC packaging & testing
Digital Testing Services	IC testing
CS Plastics	Plastics for IC
Alpha Power	Power producer
Alphatechnopolis	High-tech industrial estate*

*Under construction

Alphatec Electronics Share price (baht)



Source: Datastream

Japan group plans to offer local telecoms

By Michiyo Nakamoto in Tokyo

Japan Telecom, a long-distance carrier, plans to construct a wireless local telecoms network to connect large corporate users to its long-distance network.

The plan will make Japan Telecom – which is taking over International Telecom Japan, an international carrier – the first Japanese carrier to provide a service encompassing local, long-distance and international services.

The move follows deregulation by the Ministry of Posts and Telecommunications, which has lifted barriers between local, long-distance and international services.

Japan Telecom said it planned to start operating on a trial basis in the autumn. The size of the investment and the actual start of services were still under consideration, it said.

The planned network would allow Japan Telecom to reduce its dependence on the local network of NTT, the country's dominant carrier, which has a virtual monopoly over local calls in Japan.

Long-distance carriers have complained that NTT's high access charges prevent them from lowering costs and that its monopoly gives it an unfair advantage in long-distance operations. Before deregulation, NTT was the only operator offering both long-distance and local services.

Japan Telecom, whose leading shareholders include the JR railway companies, plans initially to offer the local service to large corporate customers within 2km of the JR stations to which its long-distance network extends.

Although the move makes Japan Telecom the first Japanese operator to offer a universal service, it is not expected at this point to lead to all-out competition in the local market.

"Everybody is saying they will provide a universal service, because without the ability to do so it is impossible to move ahead in the telecoms market," said Mr Makio Inui, of Salomon Brothers in Tokyo.

However, Japan Telecom's market would initially be restricted to certain corporate clients and, in the absence of definite capital investment plans, it was difficult to see how serious the company was about building a local network, he added.

AMER GROUP LTD

NOTICE OF SHAREHOLDERS' MEETING

An Extraordinary Meeting of Shareholders of Amer Group Ltd has been convened for Monday June 2, 1997, at 2pm at the head office of Amer Group Ltd, Mäkelänkatu 91, Helsinki.

The following resolutions will be put to shareholders at the meeting:

1. The Exchange of K shares for A shares

1.1 The proposal is to decrease the Company's share capital by FIM 39,813,120 to repay the shareholders the amount paid for the K shares. The decrease of the share capital shall be effected by redeeming all 1,990,656 K shares, with a nominal value of FIM 20 per share, at a redemption price of FIM 24 per share. The total redemption price is thus FIM 47,775,744. The K shares shall be redeemed as follows:

	Number of K shares
The Finnish Association of Graduate Engineers TEK	676,824 shares
The Finnish Association of Graduates in Economics and Business Administration (SEFE)	497,664 shares
The Student Union of the Helsinki School of Economics and Business Administration, KY	497,664 shares
The Land and Water Technology Foundation	318,504 shares

The redemption price will be paid on a date decided by the Board of Directors, when the decrease of the share capital has been registered with the Trade Register.

1.2 The proposal is to increase the Company's share capital by FIM 47,775,760 by issuing new A shares with a nominal value of FIM 20 per share. The shares are offered, with exemption from the shareholders' pre-emptive rights to subscribe for shares, as follows:

The Finnish Association of Graduate Engineers TEK	812,189 shares
The Finnish Association of Graduates in Economics and Business Administration (SEFE)	597,197 shares
The Student Union of the Helsinki School of Economics and Business Administration, KY	597,197 shares
The Land and Water Technology Foundation	382,205 shares

The subscription price is FIM 20 for each A share.

The subscription will take place at the Company's head office on June 2, 1997. The payment in one instalment shall take place at a date later decided by the Board of Directors, but no later than June 6, 1997. The new shares are entitled to full dividends for the financial period which commenced on January 1, 1997.

Prior to the decrease of the share capital and the above new share issue, each of the four shareholders owned more than one per cent of the shares and held more than one per cent of the total voting rights in the Company. Together these four shareholders owned 11.5% of the shares and held 90.5% of the total voting rights. After the decrease and the increase of the share capital has taken place, these shareholders will own 13.0% of the shares and hold 13.0% of the total voting rights in the Company.

The Board of Directors shall decide upon other matters relating to the decrease and increase of the share capital.

2. The amendment of the articles of association

The material contents of the proposed amendment are as follows:

— the changing of the Company to a public limited company and the subsequent change of the Company's name,
— the changing of the number of the members of the Board of Directors and their mandate period,
— the removal of the stipulation concerning the K shares and other changes in relation to this as well as the removal of the redemption clause,
— the removal of the stipulation, under which the Company can redeem its own shares,
— the abolition of the Supervisory Board and changes in relation to this, and
— the extension of the time of notice to the shareholders' meeting.

In addition, some minor formal or material changes in the articles of association are proposed. The changes in the Companies Act, effective as of September 1, 1997, necessitate some changes to the articles of association. Additionally some of the changes are a result of the increase and decrease of the share capital, described in section 1.

As a result of the decrease and the increase of the share capital, the Company's share capital will be FIM 482,843,980 comprising 24,142,199 A shares.

The execution of the proposals included in the comprehensive measures of sections 1 and 2 requires that all referred proposals are approved by the shareholders' meeting and that all resolutions are effected.

The reasons for executing the proposed comprehensive measures, the basis for the calculation of the subscription price and the reasons for exemption from the shareholders' pre-emptive rights to subscribe for shares

The objective of the proposed comprehensive measures in section 1 is the exchange of all present K shares for A shares, whereby one K share is exchanged for 1.2 A shares. From the Company's point of view there are substantial economic reasons for the proposed measures, as the voting rights of the A shares increases from 9.5% to 100%. The liquidity of the A shares should also improve, which means that the interest in these shares as investment objects should increase. According to the Board's proposal, it is justified to set the redemption price of the K shares and the subscription price of the new A shares as low as possible to protect the Company's balance sheet and unrestricted equity. Consequently, the lowest possible price, ie the nominal value of the shares or FIM 20, was taken as the subscription price. The K shares will be redeemed for FIM 24 per share, which is considerably below their market value. As only the A shares are quoted and there has been no trading in the K shares, the price differential between the two classes of shares has been based upon the estimated difference in value between the two classes. A more transparent ownership structure is also expected to improve the ability to use the A shares to raise equity finance and as payment for eventual acquisitions.

The documents relating to the decrease and increase of the share capital will be displayed for shareholders at the Company's head office from May 20, 1997.

Shareholders who are registered at the shareholder register kept by the Finnish Central Securities Depository Ltd on May 23, 1997 at the latest, or those persons entitled by Chapter 3a, Section 4.2 of the Companies Act, have the right to participate in the shareholders' meeting.

Shareholders who wish to participate at the meeting must register at the Company by May 29, 1997, by 4 pm at the latest, either by mail to Amer Group Ltd, Share Register, P.O. Box 130, FIN-00601 Helsinki, or by phone, tel + 358-9-7577 261 (Mirja Vetanen). Letters must arrive before the registration time expires. Proxies are to be sent to the above mentioned address together with the registration.

Helsinki, May 13, 1997

The Board of Directors

ASIA-PACIFIC NEWS DIGEST

Biccor signs Thai fibre-optic deal

Biccor, the joint-venture between BICC Cables, of the UK and Corning, of the US, has signed an agreement with Thailand's Ucom to produce optical fibre telecommunications cables in Thailand in an investment worth $20m.

Ucom is a leading supplier of telecommunications equipment, and Thailand, whose telecommunications infrastructure is undergoing a big expansion, has had to import all its fibre-optic cables. Some 6m new telephone lines are being installed from the beginning of this year, while mobile network operators have been investing in fibre-optic systems supported by high-capacity trunk-switching networks.

The new venture, located along Thailand's Eastern Seaboard industrial region, will be 65 per cent owned by Biccor and 35 per cent owned by Ucom.

Ted Bardacke, Bangkok

NAB in US relocation buy

National Australia Bank, Australia's biggest commercial bank, is acquiring Boatmen's Relocation Management, a US executive relocation business based in St Louis, for an undisclosed sum. It is being sold following the acquisition of Boatmen's Bancshares by NationsBank last year.

NAB already owns an executive relocation business through Michigan National, its US banking subsidiary. It said yesterday that the Boatmen's unit had receivables of around US$31bn and would in effect double its existing business. This would take NAB – via Michigan National – to fourth place in the US relocation market.

Nikki Tait, Sydney

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

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COMPANIES AND FINANCE: THE AMERICAS

EchoStar in $5bn claim against News Corp

By Christopher Parkes in Los Angeles

The clash between News Corporation and EchoStar, would-be partners in US satellite television, has escalated with a lawsuit claiming damages of $5bn or more from Mr Rupert Murdoch's media group.

EchoStar, which admitted it was running short of capital, said yesterday it had opened negotiations with banks for short and medium-term financing, and planned to start talks with possible alternative partners.

The breach of contract writ was the most aggressive move in a bizarre sequence which has imperilled both companies' efforts to catch up with the leaders of the fast-growing US satellite TV industry.

EchoStar, currently ranked third behind DirecTV, owned by General Motors, and PrimeStar, a cable industry partnership, needs cash to cover its cut-price marketing strategy and contain debt which has mounted to about $1bn.

News Corp wants a partner to advance its own project, which is otherwise not expected to go on air until sometime next year.

The $1bn merger deal, which shook the US television industry when it was *announced in February*, started to unravel on May 1, when EchoStar revealed that News Corp had issued an ultimatum, apparently on technical grounds, delaying implementation of the first stage of the link.

The dispute stalled an agreement for News Corp to take an initial $200m stake in its prospective partner and at the same time grant EchoStar an interest-free $200m loan.

Two of Mr Murdoch's most *senior satellite executives* walked out shortly afterwards, and last Thursday EchoStar filed a claim for the $200m. This was followed by Friday's filing of the breach of contract suit in a Colorado district court.

The conflict, which many observers believe will lead to the collapse of the deal, could leave EchoStar vulnerable to an aggressive takeover if it fails to find a substitute partner.

Other than waiting for the launch of its own satellites, due later this year, and funding the estimated $3bn investment alone, News Corp's immediate alternatives appear to be limited to negotiating a deal with PrimeStar.

However, Mr Murdoch has few obvious allies in the 1.8m-subscriber company, which was set up by cable operators as a defensive measure against the threat satellite presented to its *mainstream operations*, especially in remote, uncabled areas.

Ford seeks control of dealers

By Richard Waters in New York

The restructuring of the US car retailing industry has taken an unexpected twist with an attempt by Ford Motor to take control of a group of its dealerships.

The carmaker's plan marks the first attempt by Detroit to influence the revolution that is sweeping the retail end of the industry. But it could fall foul of state regulators, and relies on a high degree of support from the company's independent dealers if it is to succeed, analysts and industry observers said.

Ford said it wanted to merge its 18 independent dealerships in Indianapolis into a new company, to be run by a Ford-appointed manager and owned jointly by the company and the existing dealers. The new company would run a smaller number of much larger showrooms in the city, along with a small group of service centres.

The move, which could act as a model for Ford dealers in other cities, would mark a break with the traditional relationship between Detroit and its dealerships. One aim would be to end the competition for buyers between the company's dealers. "We want them to compete with Toyota and Honda, not with each other," Ford said.

The big three US car and truck makers were caught off-guard 18 months ago when a small group of entrepreneurs, led by Mr Wayne Huizenga, set out to gain a foothold in the highly fragmented car retailing industry.

Most dealerships, owned and run by local businesses, have changed little over the years, offering a range of new and used vehicles from relatively small sites. American car-buying is also characterised by haggling over price – a practice which turns off many buyers.

Mr Huizenga's Republic Industries, along with others such as United Auto Group, have set out to change that by establishing car "superstores", characterised by larger inventories of cars offered at lower, "no-haggle" prices.

Their rapid growth – Mr Huizenga became the country's biggest car dealer earlier this year – presented Detroit with the spectre of a powerful group of retailers, outside the control of the industry and with the negotiating power to force makers to cut prices.

Wayne Huizenga: now biggest car dealer in the US AP

Ford's plan could produce a group of company-controlled stores with the scale and modern retail methods to compete with the new superstores.

However, if it is seen as an attack on the traditional dealership, it could run into opposition from the state regulators who oversee car retailing, said Mr Jim Mateyka, an industry consultant at A.T. Kearney. "The dealers hold great power in state and local governments," he added. "They're typically pillars of the society in small towns all over America."

Top-level shake-up at Molson

By Bernard Simon in Toronto

Molson Companies, the diversified Canadian brewer, has launched a surprise management and board shake-up, including the removal of its chief executive, in a move to sharpen its focus on its beer operations.

The group surprised analysts with a decision to replace Mr Norman Seagram as chief executive after less than a year in the job. Mr Seagram, 62, is succeeded by Mr James Arnett, a Toronto corporate lawyer who is also a Molson director.

In addition, four new directors have been named, and two existing directors have left the board. The newcomers include Mr Michael von Clemm, former chairman of Credit Suisse First Boston, the international investment bank.

A four-strong executive board has been set up. Mr Eric Molson, scion of the Montreal-based family that controls Molson, said Mr Arnett "will work closely with the executive committee and the board to achieve our strategic priority – operating brewing status".

Molson is a holding company with a 40 per cent stake in Molson Breweries, one of Canada's two national beer companies.

The remaining 60 per cent is split between Foster's Brewing of Australia (which has 40 per cent), and Milwaukee-based Miller Brewing.

Molson's other interests include a chain of Canadian hardware stores and the Montreal Canadiens ice hockey team.

Molson reported 14 consecutive quarters of declining earnings before parting company last year with Mr Mickey Cohen, the chief executive, who was replaced by Mr Seagram.

Mr Cohen's stewardship included an ill-advised expansion of a large, international cleaning business, which was sold last year.

Molson has several options for turning its 40 per cent stake in Molson Brewing into an operating beer company. It could offer to buy out its partners, or could seek acquisitions outside Canada.

Mr Jacques Kavafian, analyst at Research Capital in Toronto, said he favoured the former course. "A lot of international opportunities are fairly expensive," Mr Kavafian said. "Among the big brewers, they're small fry. We're afraid they'll overpay."

The company is also under pressure from shareholders to use some of its cash hoard, which totalled C$723m (US$520m) on December 31, either to pay a special dividend or buy back shares.

Molson class A shares lost 25 cents to C$23.50 in early Toronto trading yesterday.

AMERICAS NEWS DIGEST

Wal-Mart set to control Cifra

Cifra, Mexico's largest retailer with a market capitalisation of $5bn, is expected to sell a controlling stake to Wal-Mart, completing a successful joint venture that dates back to 1991. On April 23, the two companies said they were in discussions about Wal-Mart's possible acquisition of a direct equity stake in Cifra, but insisted it was not certain that a transaction would take place.

However, a source close to the discussions said that Wal-Mart had agreed to buy the stake owned by the family of Mr Jerónimo Arango, Cifra chairman, at a price close to current market valuation. Half the shares in the company are publicly traded; most of the rest belong to the Arango family.

Mr Arango, is thought to want to retire from the business he formed 40 years ago. However, the two brothers with whom he co-founded Cifra are not believed to be interested in taking on the company.

"Cifra has growth potential like no other company in the Latin American retail sector," said Mr Alberto Montagne, an analyst at Lehman Brothers in New York. "An acquisition by Wal-Mart is not going to be a problem. The two companies know each other very well already."

Since 1994, Wal-Mart has taken a 50 per cent stake in all the new stores Cifra has opened, which has created a complex ownership structure. In the event of an acquisition by Wal-Mart, new shares in Cifra would be created to account for its US partner's stake in the company's stores. Cifra generates operating cash flow of $250m a year and has no debt. Wal-Mart's own strong cash position would make a purchase relatively easy.

Daniel Dombey, Mexico City

US retailers to merge

Fred Meyer and Smith's Food & Drug Centers, two large US retailers, yesterday announced a merger in which Fred Meyer will take over Smith's for about $700m in stock and assume its debts of about $1.3bn. The two said the merger would create a supermarket and general merchandise company with annual sales of $7bn.

Smith's shareholders will receive 1.05 Fred Meyer shares for each of their own shares. In early trading yesterday Fred Meyer's shares were down $¾ at $41¼, valuing the deal at $43¾ per Smith's share. Shares in Smith's were up $2¾ at $42¾.

Fred Meyer, based in Portland, Oregon, sells general merchandise, food, clothing, jewellery and home improvement products from a chain of 222 stores in the western US. Smith's, based in Salt Lake City, Utah, is a supermarket and drug store chain with 152 stores in the west.

Richard Tomkins, New York

Microsoft in licensing deal

Microsoft and Citrix, a developer of software that enables Windows software applications to be shared among multiple terminals, yesterday announced a licensing agreement under which Microsoft will pay an initial $75m in fees, and up to $100m in royalties, for use of Citrix's WinFrame technology. Microsoft will incorporate Citrix technology in a new "multi-user" version of Windows NT, its computer operating system.

Citrix announced in February that Microsoft might launch competing technology. This led to a 60 per cent decline in the smaller company's stock and then to speculation that Microsoft might acquire Citrix. In early trading yesterday Citrix was up 27 per cent, or $5¼, at $24¼.

Louise Kehoe, San Francisco

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 13.05.1997 / Final Prices for Trading 15.04.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.60	19.01	19.17	0.85
0100	11.60	11.67	11.67	0.00
0130	14.24	18.01	18.17	0.85
0200	14.24	22.25	22.42	0.85
0230	14.24	22.25	22.42	0.85
0300	14.24	22.25	22.42	0.85
0330	14.24	22.25	22.42	0.85
0400	14.24	22.25	22.42	0.85
0430	14.24	22.25	22.42	0.85
0500	14.24	22.25	22.42	0.85
0530	14.68	21.57	21.73	0.85
0600	11.60	21.57	21.73	0.85
0630	11.60	21.57	21.73	0.85
0700	15.01	22.39	22.55	0.85
0730	29.64	23.38	23.54	0.85
0800	29.70	27.05	27.24	0.85
0830	29.74	42.80	43.00	0.85
0900	29.79	42.85	43.07	0.85
0930	27.78	27.13	27.35	0.85
1000	27.79	35.59	35.81	0.85
1030	27.80	35.59	35.81	0.85
1100	27.82	31.97	32.19	0.85
1130	27.87	35.60	35.83	0.85
1200	30.78	35.60	35.83	0.85
1230	30.76	31.95	32.16	0.85
1300	30.69	27.06	27.26	0.85
1330	29.04	26.73	26.91	0.85
1400	23.74	24.62	24.79	0.85
1430	23.69	23.39	23.59	0.85
1500	23.62	23.38	23.56	0.85
1530	23.61	23.12	23.29	0.85
1600	23.63	23.13	23.30	0.85
1630	23.89	23.40	23.57	0.85
1700	38.86	24.62	24.80	0.85
1730	36.83	31.83	32.00	0.85
1800	34.48	31.81	31.98	0.85
1830	28.92	24.59	24.75	0.85
1900	23.66	24.58	24.75	0.85
1930	23.66	23.37	23.53	0.85
2000	22.77	22.42	22.58	0.85
2030	11.62	32.57	32.73	0.85
2100	11.62	35.80	35.96	0.85
2130	42.89	35.80	35.96	0.85
2200	42.89	35.80	35.96	0.85
2230	29.83	35.80	35.96	0.85
2300	29.83	24.59	24.75	0.85
2330	15.01	22.20	22.36	0.85
2400	11.60	18.49	18.66	0.85

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the Pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.

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100 JAHRE ANS YEARS

BANK HOFMANN & FISCHER

Silvia Fischer belongs to the Bank Hofmann team. As Switchboard Operator, she is our voice to the outside. You can experience her discreet and efficient readiness to help every time you call. Her personality incorporates an important part of what we stand for. Every member of our bank reflects our entire organisation. Each individual demonstrates total commitment towards our clients' best interests. Whether it's behind the scenes or face-to-face.

BANK HOFMANN

Bank Hofmann AG
Talstrasse 27
CH-8022 Zürich/Switzerland
Telephone 0041 1 217 51 11
Telefax 0041 1 211 73 68

A CREDIT SUISSE GROUP company

MoDo

Interim Report
Januari – March 1997

Highlights

- The profit after financial items amounted to SKr 391 million (corresponding period 1996: 858m). The result has been affected by higher delivery volumes, lower market prices and negative effects of currency hedging, which reduced the profit by SKr 193 million (increase 322m).
- The profit after financial items excluding currency hedging was SKr 584 million compared with SKr 375 million in the fourth quarter of 1996.
- The profit after tax was SKr 273 million (583m) which corresponds to earnings per share of SKr 3.10 (6.60). The return on equity was 7 per cent (16).
- Net turnover declined by two per cent and amounted to SKr 5,457 million (5,562m).
- The debt/equity ratio at the end of March was 0.26, which is the same as on December 31, 1996.
- A buoyant order intake and high delivery volumes were characteristic for MoDo's main products. The price of fine paper rose slightly while pulp prices fell in relation to the fourth quarter of 1996. The newsprint price reductions made at the turn of the year had a successive impact. Since then prices have stabilised. Market conditions for paperboard were stable and the sawn timber market remained strong.
- Price increases for long fibre as well as short fibre pulp have recently been announced by several producers.

Copies of the Interim Report will be available at:
Citigate, 26 Finsbury Square
London EC2A 1DS,
Great Britain
Telephone +44 171 282 8000

Mo och Domsjö AB (publ)
Group Staff Information
S-891 80 ÖRNSKÖLDSVIK
Sweden

MoDo

Joint venture with Schoyen follows Stagecoach's Scandinavian expansion

Norwegian venture for Natl Express

By Charis Gresser

Coach and train operator National Express is following its rival Stagecoach out to Scandinavia via a joint venture with a Norwegian partner.

Last year, Stagecoach acquired the largest bus operator in the Nordic region, Swebus of Sweden, for £115.6m ($187.2m).

Stagecoach and National Express believe that opportunities for expanding further in the UK bus market are limited. Consolidation has meant the industry is now dominated by five players, pushing up the price tags of the few independent bus companies which are left.

Scandinavia is seen as a way into continental Europe because its markets are more open than those of either France or Germany, where deregulation is expected next year. National Express will own 63 per cent of the new venture, called Concordia. Schoyen, one of Norway's largest bus companies, will hold the balance.

The partners' initial investment is "nominal", said Mr Colin Child, National Express finance director.

No acquisitions are imminent but the group would be "disappointed" if Concordia had not done "something serious" within the next year to 18 months, he added.

The purpose of the venture is to act as a vehicle for acquisitions and to tender for public transport contracts in Scandinavia and Germany. Schoyen will provide National Express with "market intelligence" and a local presence in negotiating deals.

Mr Child said: "We could have paddled our own canoe, if we had wanted to, but we would have needed to commit more resources to investigate all the opportunities."

With virtually no gearing – just over 3 per cent at the year end – one analyst reckoned National Express could easily raise more than £100m for suitable acquisitions.

Stagecoach said last week that its acquisition of Swebus was going well and an intercity express coach service it launched was two-thirds full within days.

CWS agrees deal for damages

By David Blackwell

The Co-operative Wholesale Society yesterday agreed to accept "substantial damages" in settlement of its civil action against Mr Andrew Regan following his abortive £1.2bn ($1.94bn) takeover bid.

The deal comes a fortnight after the CWS dropped legal action against Hambros Bank and Travers Smith Braithwaite – the financial and legal advisers to Galileo, Mr Regan's vehicle for the bid – after receiving substantial financial settlements.

The CWS is understood to have received a total of about £2m from all the parties involved in the failed bid. It is proceeding with a private prosecution against Mr Regan, his partner Mr David Lyons, and Mr Allan Green, the suspended senior CWS executive, for the theft of documents during the bid attempt.

The latest settlement follows a claim for damages against Mr Regan, Mr Lyons, Mr Green, Galileo and Lanica Trust, the investment company headed by Mr Regan. The claim arose from the disclosure by Mr Green of information confidential to the CWS.

Lanica, which invested £600,000 in Galileo, said yesterday that it had not been required to contribute towards the settlement and had "no financial exposure in respect of the action save for its own legal costs which are expected to be minimal."

Lanica also said that no admission had been made that CWS "has suffered any loss or damage by reason of the facts and matters alleged in or the subject of the action."

Shares in Lanica remain suspended while the stock exchange inquiry into dealing in the shares continues. However, Lanica is now expected to announce its results for 1996 later this week.

"It is anticipated that Lanica's listing can be restored at the time of the announcement of its results," the company said yesterday. It also repeated that Mr Regan and Mr Lyons would be vigorously contesting the private prosecution.

Galileo has been put into voluntary solvent liquidation. Lanica said yesterday that the liquidator "is considering bringing claims against certain former advisers to recover substantial damages," and that it might benefit if Galileo were to be successful.

LEX COMMENT

UK tax

Reform of Britain's unloved capital gains tax (CGT) is back on the political agenda, thanks to Mr Gordon Brown's current review. And over the weekend there was excited talk that the new chancellor would plump for CGT changes designed to discourage allegedly wicked speculators. Let us hope not. For one thing, there is nothing wrong with speculation. If the new government believes in markets, as it claims it does, it presumably wants them to be efficient and liquid. So to create an artificial tax incentive to hang on to unwanted assets – a frequent proposal from the reformers' camp – would seem a singularly quixotic exercise.

But, say the reformers, surely governments should be encouraging "long-termism"? Perhaps, but CGT changes are not a sensible way to do so.

Quite apart from anything else, the heavyweight investors usually portrayed as the City's short-termist villains – pension funds – do not even pay the tax. A long-termist's tax would also provide a whole new playground for avoidance wheezes. That hardly seems an attractive prospect for a party purportedly committed to closing loopholes for the rich.

If anything lies behind a short-termist outlook in British industry, it is the culture of inflation – something Mr Brown has already convincingly attacked by making the Bank of England independent. The temptation to follow that coup with counterproductive meddling to the tax system is one he would be best advised to resist.

British Biotech set for advance

By Daniel Green

British Biotech, the UK's largest biotechnology company, yesterday took a significant step closer to commercialising its first product with news of progress in clinical trials and a series of senior marketing appointments.

British Biotech is establishing sales subsidiaries in the UK, France, Germany, Italy, the Nordic region and Spain and from these bases intends to market its products throughout Europe.

The new executive's first job will be to prepare for the launch of Zacutex, a drug for acute pancreatitis. The results of Zacutex clinical trials have already been given to medical regulators in Europe.

They include data released to the public yesterday that showed that the death rates halved in patients given Zacutex within 48 hours of contracting pancreatitis. The trials were conducted on 290 patients at 18 UK centres.

Separate trials are being conducted for the US because the US Food and Drug Administration demanded a different trials structure from that in Europe.

Shares in the group fell 4½p to 243½p yesterday.

The new managing director for the UK, Ireland and Netherlands subsidiary is Mr Adrian Haigh, 37, who joined from Schering-Plough of the US. Other appointments announced yesterday included Mr Tim Edwards, 40, director of business development, who was at NatWest Markets Corporate Finance, and Mr Roy Carlisle, aged 39, international marketing manager, who had been marketing manager new product development at SmithKline Beecham Pharmaceuticals.

API up sharply to £6.1m

By Virginia Marsh

Pre-tax profits at API, the packaging and coatings group, surged 44 per cent to £6.1m ($9.88m) in the first half, despite start-up losses at a new business and the strong pound.

Mr Michael Smith, chief executive, said the new metallising business had lost £1.1m, but was expected to be profitable by the end of the financial year. This was ahead of schedule and justified the £10m investment.

He said he was surprised other companies had not entered Europe's £300m metallised paper market which was dominated by one producer. Growth potential was great as companies in the brewing and tobacco sectors began to switch out of aluminium foil, which is less environmentally friendly.

The strength of sterling had cost the group, which derives nearly 60 per cent of sales from overseas markets, about £1m.

Raymonds

Michael Smith at the Henry and Leigh Slater factory which produces silvered paper

Sales rose by a fifth to £70m (£58.1m), aided by a good performance at Learoyd, the specialist film and packaging producer acquired for £22m last June. Operating profits at Learoyd rose 90 per cent to £4.1m in the six months to March 29.

The group aimed to use cash to make other acquisitions, while joint venture talks in China had progressed. Net cash was £8.2m at the period-end.

Flat markets hit Diploma

By Christopher Price

Diploma, the electronics components and steel products distributor, blamed a 2 per cent dip in interim pre-tax profits on continued difficult trading conditions across many of its markets.

Profits of £10.8m ($17.5m) compared with £11m and were struck on sales of £125.5m, a rise of 10 per cent.

The results were largely in line with expectations following a cautious outlook for the current year given with the annual results last November.

The electronic components business was the best performer, producing a 31 per cent rise in operating profits to £6.3m. However, Mr Christopher Thomas, chairman, said the rise had come from a mixture of acquisitions and cost cutting. Underlying market conditions remained flat, although the computer component business had seen some upturn.

Profits from the building products division increased 11 per cent to £2.9m, again mainly due to acquisitions and cost management. Margins remained under severe pressure, particularly in the lintel market. Revenues were "volatile" in the special steels business where profits fell 45 per cent to £1.8m.

Mr Thomas was confident of finishing the year more strongly and predicted an upturn in the electronics business. He also said the company, which had £12m of cash at the March 31 half year, would continue to search for acquisitions.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
API	6 mths to Mar 29	70	(58.2)	6.08	(4.22)	15.59	(13.59)	4.93	July 4	4.48	-	11
DCC ♣	Yr to Mar 31	827.7	(535.6)	36.3¶	(28.9¶)	33.1†	(25.36)	4.96	July 3	4.19	6	6.9
Diploma	6 mths to Mar 31	125.5	(113.9)	10.8	(11)	12.3	(12.7)	4.5	July 1	4.5	-	14.5
Edge Properties	14 mths to Mar 31☆	18.4	(1.1)	1.07	(1.04L)	2.7†	(24.1L)	nil	-	nil	nil	nil
Grand Metropolitan	6 mths to Mar 31	4,309	(4,551)	428♣	(449♣)	13.3	(14.4)	6.25	Oct 6	5.85	-	15.9
Mani Angle	6 mths to Feb 28	17.7	(9.05)	0.107	(0.226L¶)	0.69L	(2.34L)	-	-	-	-	-
Old English Pub	Yr to March 30 ☆	14.7	(7.78☆)	1.53	(0.49)	7.77	(2.86)	1.2	June 30	0.67	2	1
Stallion ♣	Yr to Dec 31	7.74	(7.2)	0.406	(0.292)	12.5	(11.8)	1.05	July 15	-	1.05	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Chinese	6 mths to Mar 31	85.5	(86.8)	0.15L	(0.023)	0.29L	(0.04)	-	-	-	-	0.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♣After exceptional charge. ¶After exceptional credit. †On increased capital. ☆Comparatives for 12 months. ☆Comparatives for 15 months to March 31 1996. ♣Aim stock.

This announcement appears as a matter of record only.

May 1997

TESCO

has acquired

The Irish Food Retailing Businesses

of

Associated British Foods plc

for a total cash consideration of £630 million.

The undersigned acted as sole adviser to Tesco PLC in this transaction.

UBS Limited
A member of the Union Bank of Switzerland Group.

UBS
Union Bank of Switzerland

SGB float expected to carry £140m price tag

By Andrew Taylor, Construction Correspondent

SGB Group is expected to be valued at £130m-£140m ($226.8m) when it is floated next month.

Some 49 per cent of the specialist scaffolding and mobile work platforms group is being floated. Its parent, the John Mowlem construction group, will retain the rest.

The pathfinder prospectus, published yesterday, revealed 1996 pre-tax profits of £13.9m. Hoare Govett, brokers to the placing, forecast that pre-tax profits before exceptional charges could rise to £15.5m this year on the back of the UK construction recovery.

Assuming the stock is placed on a prospective p/e of just below 14 – a 10 per cent discount to the sector average – an issue price of about 175p-185p is implied on forecast 1997 earnings per share of 13.6p.

Mowlem, which bought SGB for £160m in 1986, will use the proceeds to pay for the early redemption of a £50m eurobond and to invest in its other activities.

It sold large parts of the SGBbusiness, which suffered badly in the early 1990s and lost £28m in 1993 when its French operations were restructured.

Operating profits have since risen steadily, increasing by 24 per cent last year to £16m. Sales rose by 7 per cent to £263.3m.

Mr Bob Stokell, SGB chief executive, said the group planned further rationalisation in the UK, reducing its manufacturing outlets from seven to two and giving annual savings of about £2m.

The rationalisation is expected to result in exceptional charges of £500,000 this year and £1m next.

SGB employs 4,000 people in 20 countries. The UK last year generated operating profits of £8.1m on sales of £135m. It is expected to have debt of just over £40m after the placing, leaving gearing at 40 per cent.

Mowlem, which has sold its UK housebuilding and London City Airport interests, is concentrating on developing its construction and environmental services activities.

The early redemption of the eurobond, dated 2013 and carrying an interest rate of 11.5 per cent, is expected to cost between £54m and £57m, but will save £1.7m gross in annual interest payments. This will leave Mowlem with net cash to invest in its core interests.

NatWest Markets is advising SGB. Dresdner Kleinwort Benson is advising Mowlem.

Mowlem shares were unchanged at 143½p.

Ladbroke's board attacked

By Charis Gresser

Ladbroke's board came under heavy fire from small shareholders at its annual meeting yesterday, over the remuneration directors received last year.

Shareholders complained at the total £3.6m ($5.83m) remuneration paid to six executives of the UK's largest betting shop chain last year. This figure included payments from a three-year incentive plan. The year before the six received a

remuneration levels were distasteful given that "loyal shareholders had suffered so badly". Another complained that both earnings and dividends had fallen since 1991.

Mr John Jackson, chairman, defended the emoluments, and said that in terms of total shareholder return, a combination of both dividends and share price, the company was "doing pretty well".

Amendments to the incentive scheme, which includes tougher performance criteria

The City gave a warmer response after the company said group profits for the first four months of 1997 were "significantly ahead" of the corresponding period. The shares rose 12p to 254p.

The wide-ranging alliance between Ladbroke and Hilton Hotels Corporation, was proceeding smoothly, said Mr Jackson. When the deal was announced last summer, HHC said it intended to cement the venture by taking a 5 per cent stake in Ladbroke. Mr Jackson said yes-

NEWS DIGEST

Ethical seeks London listing

Ethical Holdings, the Cambridgeshire-based biotechnology company listed in the US, is to raise about £20m ($32.4m) by floating on the London market in a move which reflects the rapid growth of biotechnology investment in the UK.

Established in 1985 with the first wave of UK biotech companies, Ethical chose to list on Nasdaq, the US market favoured by high-technology companies, in its first public share issue in 1993. But Mr Geoffrey Guy, chief executive said: we "In the last two years the London market really has matured." He said it had decided to list in London by means of an institutional placing because it would have a higher profile than in the US, which, it hoped, would boost its market value. Baring Brothers International is acting as sponsor.

Mr Guy said: "Nasdaq has been a real roller-coaster. We have been slipping behind in terms of valuation because of our lack of visibility." James Capel, Ethical's UK broker, said: "It is very difficult for companies to communicate effectively with shareholders several thousand miles away."

Ethical's shares, which reached a high of more than $13 in 1993, have dropped from $11.25 to a low of $4.38 over the past year. Yesterday they opened up 50 cents at $5.50.

The company specialises in drug delivery technology including controlled-release pills and skin patches. It recently launched the first oestrogen/progestogen combination patch for hormone replacement therapy.

Roger Taylor

Singapore offer for Gieves

Gieves & Hawkes, the quintessentially English gentlemen's outfitters and suitmaker to Prince Charles, is to pass under the control of a Singapore property and textiles group.

USI Holdings, the quoted Hong Kong unit of Singapore's Wing Tai, yesterday announced a cash offer for Gieves, valuing the group at £8.6m ($13.9m). As well as the Savile Row suitmaker, Gieves includes Chivers Press, a publisher of books and audio tapes, and a 49.5 per cent stake in the struggling Knickerbox lingerie chain.

The offer, at 46.75p the minimum permissable price, has been triggered by USI's decision to convert its holding of £2.5m convertible loan stock. Exercising the option, which expires in 2000, will lift its holding from 19.5 per cent to 41.1 per cent of the enlarged share capital.

Sterling's rise costs IMI £15m

Sterling's recent rise will cost IMI, the international engineering group, an estimated £15m ($24.3m) in lost transactions and added translation costs.

The shares dipped 3p to 358p.

At yesterday's annual meeting, Sir Eric Pountain, chairman, said earlier predictions had underestimated how the strong pound would hit profits. IMI had forecast in March that the currency movements would lower profits by £10m.

However, Sir Eric added that first-half profits would still be higher than last year's. New additions include the £89m purchase of ISI Automation, the US pneumatic components company, and the £24m buy of Wilshire, the US producer of drinks dispensing machines.

Richard Wolffe

Vote forced on Brazil trust

Disgruntled shareholders have forced the underperforming £52m ($84.2m) Brazilian Smaller Companies Investment Trust to offer them a vote on the trust's future. The vote, expected to be held at an extraordinary meeting in July, could lead to the trust being wound up. But the board warned that shareholders would be unlikely to get more than 88 per cent of assets back if this happened.

This shortfall is largely down to the high cost of paying off the trust's manager, Foreign & Colonial Emerging Markets. F&C is on a three-year contract, which is much longer than the industry norm.

Jean Eaglesham

Biotech trust fundraising

International Biotechnology Trust, the investment fund with net assets of about £90m which is run by Rothschild Asset Management, plans to raise up to £25m from a placing and offer of C shares.

The trust specialises in mid-stage investment, helping established biotechnology companies manage the move from venture capital backing to a stock market listing.

Mr Jeremy Curnock Cook, who heads the investment management team, said: "Mid-stage biotechnology investment is spreading through Europe. We anticipate putting more of the fund's money into countries such as France and Germany, as well as the UK." Currently most of the investments are in the US.

The fund raised £37.7m in 1994 and a further £27.4m last year. Merrill Lynch is handling the placing and offer which is not underwritten. Dealing in the new shares is expected to start on June 9.

Roger Taylor

A new spirit is brought into the world

But the merger between Guinness and Grand Metropolitan, reports Tony Jackson, raises a host of questions

To an extent, the stock market's rapturous reception of the Guinness-Grand Metropolitan merger yesterday was understandable. The new company, GMG Brands, will be a bigger spirits producer than its two nearest rivals combined. Growth in the world drinks market may be meagre, but GMG ought to grab more than its share of it.

There are two caveats. In the past five years, Guinness's shares have underperformed the market by 50 per cent, and GrandMet's by 40 per cent. Both have a history of destroying value through injudicious acquisitions, such as Guinness's purchase of the Spanish brewer Cruzcampo. Is this a recipe for merger?

In addition, most successful companies in recent years have aimed to simplify and specialise. Guinness already has two unrelated businesses, beer and spirits. GrandMet has three: drinks, food processing and restaurants. The new GMG will take in brewing in Dublin, fast food in Florida and dough-making in Minneapolis. Is this a focused business for the next millennium?

The companies might argue they had no choice. The world spirits industry has been under acute pressure in recent years. Mr Tony Greener, Guinness's chairman, said yesterday he expected consumption to recover, but only by 1.5 per cent a year until 2000. Combine that with price increases of little over 1 per cent last year, and the case for industry consolidation is clear.

But most of the candidates are bundled together with other businesses: Seagram with fruit juice and film studios, LVMH with luggage, Allied Domecq with pubs. Putting Guinness and GrandMet together in a quasi-conglomerate may be simply pragmatic.

To be sure, Mr Bernard Arnault, LVMH chairman, has proposed a pure drinks company, combining its drinks business with those of Guinness and GrandMet. But as Mr Greener said yesterday, demerging the three companies for the purpose would be gruesomely complex.

Some day, he suggested, a deal with Mr Arnault could be possible. "Clearly, the combination of [LVMH's] Moët Hennessy with the enlarged business would be advantageous," he said. It's simply a matter of how Bernard sees his portfolio, and whether there's a right price."

That apart the stock market is no doubt calculating that GMG might go on to demerge its drinks business from the rest. It would not do to count on it. Yesterday, the top executives of both companies were adamant that the aim was to produce a consumer products colossus to rival Procter & Gamble, Philip Morris and Unilever.

"Look at those companies," Mr Greener said, "and you find both high growth rates and the very best marketing people. Our aspiration is to bat in that premier league. You can't get there just in drinks, or just in food. You need the agglomeration to get the clout in Asia, or in Latin America. Demerger destroys those opportunities."

Mr George Bull, GrandMet's chairman, put the point differently. "If you made us simply the world's biggest spirits business, even after you do the synergies and sharpen it up, you've still got a slower rate of growth than the market is looking for."

In other words, food, beer and restaurants – all of which have faster growth than spirits – will improve the performance overall. This seems a little troubling. Today's capital markets are perfectly capable of valuing low-growth and high-growth companies separately.

Then there is the question of focus. In a group which runs Häagen-Dazs ice cream parlours in California and distilleries in Scotland, the burden of proof is on the corporate centre to show it can add value to those activities rather than subtract it.

GMG's future bosses had no truck with that yesterday. Mr Philip Yea, finance director, said "the difference between having shares in one company and in three or four lies in the core competence of managers. Look at the league table this moves us into, and the geographical spread. That's the measure."

And in any case, Mr Bull argued, the new group would have plenty of focus. "It's about being focused entirely on the consumer", he said. "We have two sorts of food businesses and two sorts of drinks businesses in the same envelope and aimed at the same consumers. It's extremely tight."

There is an unsettling parallel here with Pepsico of the US, which is in drinks, snacks and fast food restaurants. In recent months, the group has concluded that its range of businesses is distractingly wide, and is looking at demerger.

That apart, what of the cultures of the two companies? Historically, at least, they are very different. Guinness has for many years been a highly focused company. Back in the 1960s it was involved in such oddities as making plastics and spiral staircases. For over a decade, however, it has done nothing but make and sell beer and spirits.

GrandMet, on the other hand, was historically the product of pure opportunism. It moved from its beginnings in property and hotels into, for example, brewing, betting, wines and spirits, food manufacture and contact lens retailing.

GrandMet's executives do not dispute the history. However, Mr Bull was not disposed yesterday to accept its relevance. Since he and Mr John McGrath, chief executive, had taken over 15 months ago, he said, the business had become much more coherent. Indeed, that process, together with the associated revival in GrandMet's share price, had been a key component in making the merger feasible.

"Guinness's logic is to stick to its knitting, and that's exactly what GrandMet does", he said. "The two cultures as they stand are very similar. History is bunk in this context. The philosophies going forward are extraordinarily parallel."

In addition, Mr Greener and he have known each other personally for 17 years. "What makes for a successful merger", Mr Bull said at a press conference yesterday, "is a committed and coherent management team". The companies also have a useful asset in Mr Jack Keenan, who will head the combined spirits business. He recently moved to GrandMet from Philip Morris, where one of his tasks was to effect the merger of Kraft and General Foods.

But while not unimportant, this is not the main issue. Knitting together the spirits empire should in principle be straightforward, even if 2,000 redundancies and a cash cost of £300m sound rather daunting.

The real problem will come in assembling a group which, *pace* Mr Bull and Mr Greener, will be in effect a worldwide conglomerate. Previous experience suggests that a merger of equals is a prolonged and exhausting process. If that is true within one industry, such as drinks or pharmaceuticals, it is truer across several.

Experience also suggests that if the merger is to work, neither company's culture should predominate. Indeed, both have to wither away in the space of a few years, giving place to a third culture which has learnt to forget the "us and them" mentality.

In practice, an important part of that process may be getting rid of the old guard, including at the top of the company.

How the deal will be funded

Under the proposals, existing Guinness shares will renamed GMG Brands shares. GrandMet shareholders will be issued one GMG share for each GrandMet share held.

There will then be a capital repayment of at least 60p per GMG share, totalling £2.4bn. This will take the form of an issue of new GMG B shares which will be redeemable for cash. This will avoid liability for advance corporation tax.

The B shares, if not redeemed, will pay a dividend equal to 75 per cent of three-month Libor. Shareholders will receive 116 B shares or £600 for every 1,000 GMG shares held.

GrandMet shareholders will end up with 52.7 per cent of the new company, and Guinness shareholders 47.3 per cent.

Under the merger terms, GrandMet shareholders will have to vote 75 per cent in favour under a special resolution. Guinness shareholders need only a simple majority.

■ OPPOSITION – By Ross Tieman

Seagram to fight merger worldwide

Seagram of Canada, the world's second-largest spirits company, yesterday said it would oppose the planned merger of Guinness and Grand Metropolitan in representations to competition authorities around the globe.

Mr Robert Matschullat, Seagram's chief financial officer, said United Distillers & Vintners, the proposed joint Guinness/GrandMet spirits company, would control half of the Scotch whisky market worldwide. In the US, the largest and most profitable spirits market, he said UDV would sell three out of every four bottles of standard scotch, and one in every two bottles of premium gin.

"This combination would create serious anti-trust problems in the US, Europe, and we believe probably elsewhere," he said. "I don't know whether they think the regulators are asleep."

If the deal were allowed, the parties were likely to be ordered to sell spirits brands representing a large part of their business, he said.

Analysts said the strength of the reaction from Seagram was a measure of the threat to its business from the deal.

According to independent research from Datamonitor, Seagram had spirits sales of $5.1bn (£3.2bn) in 1995, just $100m less than GrandMet. But combined, GrandMet and Guinness would have enjoyed annual spirits sales of some $9.2bn, far ahead of any rival.

Mr Ron Littleboy, drinks analyst at Nomura, said: "This company combination is so big and so potentially powerful that every other major spirits company must be quaking in its boots wondering what it should do."

Analysts said Allied Domecq, the UK drinks company which ranked third after Seagram in 1995 with sales of $4.6bn, would also be threatened.

Allied is expected to give its views today, along with profits for the first half of the current year.

Alarm within the drinks industry was tinged with a measure of hope that UDV would use its new-found muscle in the market place to increase prices, allowing rivals to achieve bigger profit margins in its wake.

"I would think they are going to be in a position to dictate prices a little more than the industry has been able to do in the past," said one executive.

Rivals were also hoping that UDV might be obliged by regulators to offload some brands, or chose to do so to maximise the effect of advertising.

Mr Matschullat said Seagram would be a potential buyer. Once its declared intention of selling its $2.5bn stake in entertainment group Time-Warner was achieved, Seagram would be under-geared, with net debt of just $1bn against a market capitalisation of $15bn.

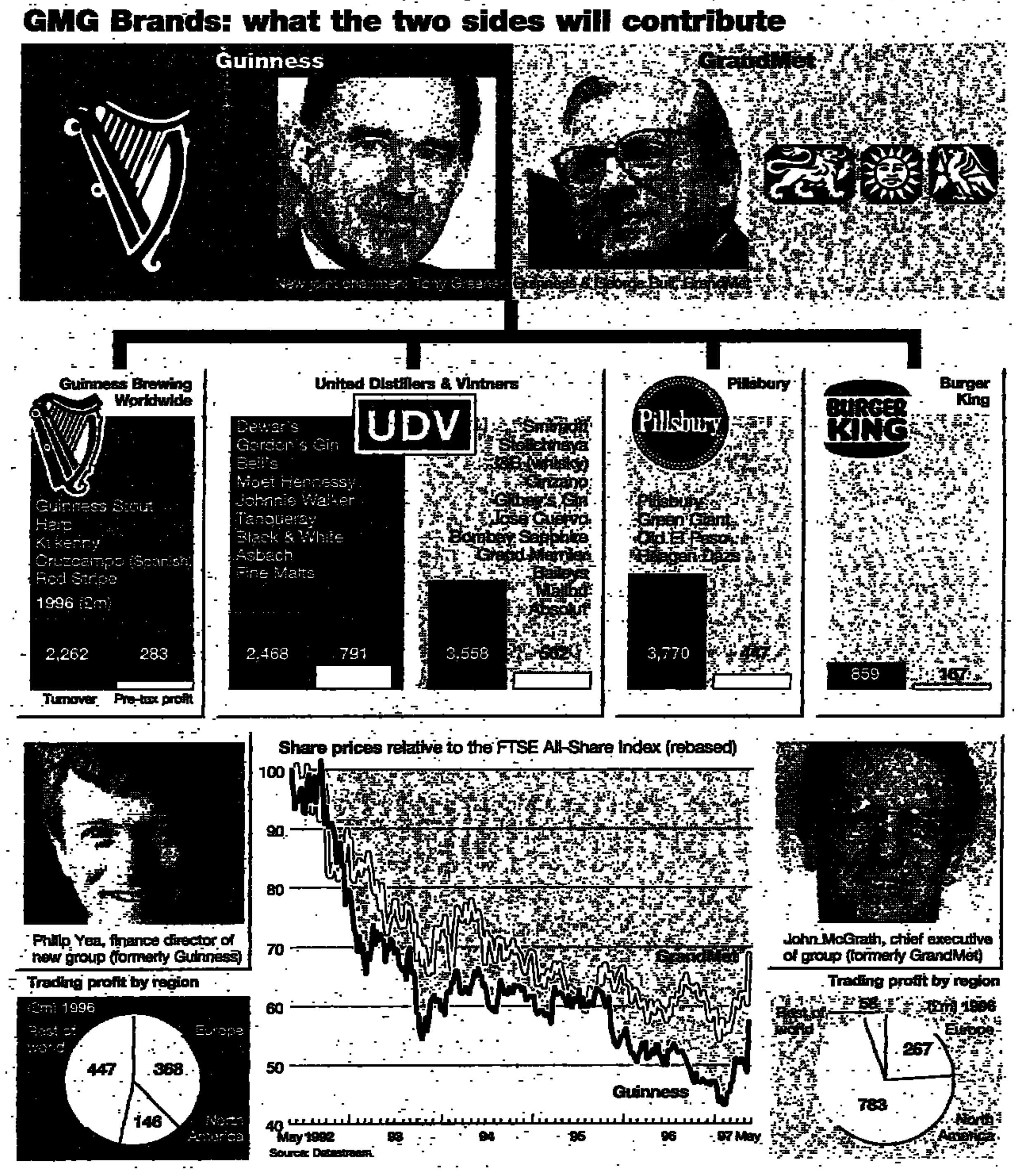
Analysts suggested a merger of Seagram and Allied might be possible. Indeed, many brokers believe that the Guinness/GrandMet merger, if allowed, could trigger a fresh round of consolidation worldwide, with Moët-Hennessy, Bacardi, Pernod Ricard, Remy-Cointreau, American Brands and Brown-Forman all seeking to reinforce their positions.

Mr Matschullat said: "I don't think it changes our strategic position very much." Achieving shareholder value was more important than scale. "It really depends upon the specifics of the situation."

Consolidation in the industry is nothing new. Allied Domecq, which originated as a consolidation of UK brewers, bought Hiram Walker of Canada for £1bn in 1986, Whitbread's spirits division for £545m in 1989, and Pedro Domecq for £739m in 1994. Guinness, too, has a long-standing history of expansion by acquisition.

The spirits industry remains fragmented worldwide. But the battle between leading brands is hard fought. The question now is whether or not rivals will wait to see how the GMG merger fares with regulators before making further consolidation moves of their own.

GMG Brands: what the two sides will contribute



Philip Yea, finance director of new group (formerly Guinness)

John McGrath, chief executive of group (formerly GrandMet)

■ LVMH – By David Owen in Paris

Opportunity for a strategic reshuffle

Mr Bernard Arnault might not have got what he wanted, but yesterday's merger should, on balance, benefit LVMH, the French luxury goods group he chairs, and which has a 14 per cent stake in Guinness.

That, at least, was the verdict of the Paris market, which marked the company's shares up almost 5 per cent to FFr1,446 (156p) – an advance twice as big as that of the buoyant CAC-40 index.

LVMH was keeping characteristically silent about its intentions. But analysts said the transaction, which Mr Arnault opposed, made it more likely that LVMH would decide to sell what would now become a 6.6 per cent stake in a big food and drinks conglomerate.

This prospect was welcomed by the market because, said Mr Cedric Magnelia, an analyst with Crédit Suisse First Boston, it tended to perceive luxury goods as a business with a better return on investment than champagne and spirits: "The market prefers a centre of gravity at LVMH that is closer to luxury goods than spirits".

"If this is the trigger for a strategic reshuffle at LVMH that would involve getting rid of drinks and the stake in Guinness, it could be a significant positive," added Mr Jacques-Franck Dossin, a Goldman Sachs analyst.

Earlier this year, LVMH sold a third of its then more than 20 per cent Guinness stake for £554m to help fund the acquisition of Duty Free Shoppers, the global retail chain.

The company said then it would not reduce its interest further. But many observers have since assumed the sale of the rest of the stake would eventually follow.

Less positively, the deal leaves Mr Arnault's group with a small stake in a large business with few obvious overlaps.

The deal also raises the possibility that LVMH may have to change its method of accounting for its Guinness – soon to become GMG – stake.

This would mean that instead of simply including a proportion of Guinness's profits in its own earnings, LVMH would report the dividends on its investment.

Analysts said they thought it unlikely that the deal would lead to an early change in the shareholder structure of Moët Hennessy, in which Guinness has a 34 per cent stake.

■ COMPETITION POLICY – By James Buxton in Edinburgh and Emma Tucker in Brussels

US spirits market 'only possible hiccup'

"There is no way we would be sitting here today if we didn't believe we could satisfy the regulatory authorities," Mr Tony Greener, chairman of Guinness, said yesterday. "There is very little brand overlap or conflict."

Industry analysts studying the deal broadly agree. Despite the size of the two groups and the fact that each has significant shares in markets around the world, the merger will not lead to GMG Brands having an unduly large share of any market.

There is only one possible exception: GMG is likely to have nearly a quarter of the US spirits market, and could attract the attention of the US Federal Trade Commission or the US Justice Department.

But Mrs Margaret Beckett, the trade and industry secretary, is unlikely to become involved in the £23.8bn merger, the first large deal since the general election: it is so big that it will automatically come before the European Commission for approval.

Grand Metropolitan and Guinness had informal talks with the European Commission last week and will file a request for approval this week. The competition authorities will have one month to carry out an initial examination.

Although International Distillers & Vintners, GrandMet's drinks subsidiary, owns J&B, the world's second largest whisky brand, it is dwarfed in the whisky market by United Distillers, Guinness's spirits offshoot.

The latter produced 26m cases of Scotch whisky in 1996, compared with IDV's 6.5m cases, according to Sutherlands, the stockbrokers.

Because of the relative sizes, there is unlikely to be rationalisation of production facilities leading to job losses in Scotland, where takeovers can be politically sensitive.

In Europe both groups have some important market shares but there is not much serious overlap. For example, IDV is relatively strong in Spain, while Guinness has significant positions in Greece and Germany.

However, the two groups between them sold 33.2m cases of spirits in the US in 1995, making 24 per cent of the market. GrandMet's strong brands are Smirnoff vodka and J&B whisky, while Guinness has Dewars, Johnnie Walker Red Label, and Tanqueray gin.

■ RESULTS – By John Willman

Pillsbury and IDV sparkle

Strong performances by Pillsbury and IDV – particularly in North America – helped lift Grand Metropolitan's pre-tax profits, excluding exceptionals, by 3.5 per cent in the six months to March 31 1997.

Despite the adverse impact of the strong pound on the British-based company, profits before exceptionals were £471m – in line with City expectations. "This reflects the success of our strategy of reducing costs and increasing the investment behind our brands to build brand equity," said Mr George Bull, chairman.

Pre-tax profits would have been £28m higher without the appreciation of the pound, the company said. Some 70 per cent of operating profit is in dollars and a further 15 per cent in European currencies.

Exceptional charges of £43m included £39m for the sale of Aunt Nellie's Farm Kitchens. Profits after exceptionals fell 4.7 per cent to £428m. Turnover on continuing operations slipped from £4.16bn in sterling terms to £4.14bn – despite increases in sales in local currency terms.

Pillsbury raised turnover 6 per cent in local currency, and operating profit 10 per cent. But this translated into a 1 per cent increase in turnover in sterling, with operating profit for the period up from £237m to £248m.

The International division's performance was strong, with operating profit up 33 per cent. Breakfast goods increased sales 22 per cent. IDV, the drinks arm, raised local currency sales and operating profit by 5 per cent. But translated into sterling, reported profit was down 1 per cent to £208m.

Performance was particularly strong in North America where prices were raised by 5 per cent. Operating profit, up 11 per cent in local currency, rose £5m to £80m.

Burger King's profits fell to £69m (£70m) – despite worldwide sales up 10 per cent in dollar terms to $4.73bn (£2.91bn). Comparable store sales were up 2.5 per cent in the US.

Net borrowing fell £410m to £2,320m, with gearing at 64 per cent, down from 75 per cent on September 30 1996.

The interim dividend is 6.25p, up 6.8 per cent. Earnings per share were 14.9p (14.8p) before exceptionals, and 13.3p (14.4p) after.

■ PEOPLE

Job bets are on the men from GrandMet

Forget the words of respect and camaraderie: in management terms, the merger of Grand Metropolitan and Guinness is not the even-handed deal it seems, *writes Ross Tieman.*

Personnel experts suggest that the 14-man board unveiled yesterday, with its 10 executive directors, is unsustainable. If they are right, the real management shake-out is yet to come, and the smart money is on the GrandMet managers emerging as top dogs.

Outwardly, the division of senior jobs is scrupulously fair. Mr George Bull, the chairman of GrandMet and Mr Tony Greener, the chairman of Guinness, will take it in turns to chair the monthly board meetings.

Yesterday's deal is a product of their 17-year rapport. Accustomed to meeting at industry functions, they agreed to investigate a deal over dinner little more than a month ago.

Short, crisp, and old-school, it was Mr Bull, from the GrandMet camp, who proposed the merger. Mr Greener, a marketing professional who joined Guinness from Dunhill Holdings four years ago, revealed the thought had already crossed his mind.

Under the arrangements unveiled yesterday, Mr Bull will retire as planned next July, at the age of 62, leaving Mr Greener in the chair.

Chief executive of GMG will be Mr John McGrath, much admired in both the City and the drinks industry for the way he has driven GrandMet forward in recent years.

The head of the spirits marketing group that will form the core of the merged business, to be called United Distillers & Vintners, will be Mr Jack Keenan, another GrandMet hand.

Mr Paul Walsh, chief executive of Pillsbury – GrandMet's US foods subsidiary – will also have a seat on the board, along with GrandMet's Mr David Tagg, in the role of group services director.

The most savage casualty of the merger is Mr Gerald Corbett, the GrandMet finance director. Much loved by his staff for his unfailing enthusiasm, Mr Corbett, who is in his mid-40s, will be leaving once the merger is completed. Mr Bull yesterday suggested there would be a long queue of other companies seeking Mr Corbett's services.

The job of finance director to the combined group goes to the youthful Mr Philip Yea. Aged 42, and appearing younger still, Mr Yea is "exceptionally bright, with a strategic mind-set," according to Mr Sam Johar of headhunters Buchanan Harvey.

Other Guinness directors on the board are Mr Finn Johnsson who will be deputy chief of UDV; Mr Brendan O'Neill, who runs the brewing business, and Mr John de Leeuw, the head of personnel.

Europe climbs on prospect of rate cuts

GOVERNMENT BONDS

By Michael Lindemann in London and Jane Martinson in New York

Europe's main government bond markets continued climbing yesterday, driven by the prospect of interest rate cuts in several countries and positive sentiment about a single European currency.

Spanish bonos were among the strongest performers, ending the day at 115.73, close to an intraday high of 115.74.

Mr Henrik Lumholdt, chief economist at the Bank of America in Madrid, said the chances were now "very high indeed" that interest rates would be cut on Friday. "The most likely scenario would be 25 basis points," he said.

April inflation data, to be published on Wednesday, are expected to show a rise of 1.9 per cent year-on-year, down from 2.2 per cent in March, Mr Lumholdt said.

Bonos took heart from positive comments at the Ecofin meeting in Brussels about Spain's chances of joining European monetary union.

In the cash market, the 10-year yield spread of bonos over bunds tightened 3 points to 86 basis points.

Bunds were helped by bullish US Treasuries and squabbling between the Socialists and Communists in France, which was seen as likely to help the French centre-right back to power.

Analysts warned, however, that bund optimism could be dealt a blow on Thursday when the government publishes half-year tax estimates. Bunds settled at 102.27, up 0.50 from Friday.

UK gilts saw some profit-taking in early trading following last week's gains, but edged higher by the end of business to 114 7/16, up from Friday's close of 114 3/16.

Strong market sentiment was helped by comments in Brussels from Mr Gordon Brown, the UK chancellor, suggesting that sterling did not have to be a member of the exchange rate mechanism for two years before joining Emu.

The fact that April producer prices rose 0.8 per cent year on year, their lowest rise since September 1986, also provided support.

Italian BTPs settled at 129.72, up 0.42 from Friday's close. There were conflicting signals from Brussels about Italy's Emu prospects, but analysts attributed the gains to generally positive sentiment regarding the bond markets.

US Treasury prices strengthened at mid-session, helped by a positive outlook on economic data due to be published later this week. The 30-year benchmark bond rose 5/32 to 96 29/32, pushing yields down to 6.864 per cent.

Optimism about retail sales figures out today and wholesale and consumer price data due later this week raised hopes that the Federal Reserve would not lift interest rates on May 20.

Mr Kevin Sluder, of First Chicago, said prices had edged up with a "very, very low level of activity" as investors were "watching the dollar and getting prepared for data that come tomorrow". A recovering dollar also helped lift prices.

Opinion polls indicating centre-right victory lift French OATs

French bonds showed one of the healthiest performances yesterday, on the back of two opinion polls indicating a comfortable victory for the centre-right governing coalition, Samer Iskandar writes.

The June notional future rose 0.56 to settle at 130.30, then gained another 0.06 on Globex, the electronic after-hours trading system.

In the cash market, the 10-year benchmark OAT rose 0.69 to 99.34. Its yield dipped to 13 basis points below that of similar bunds, its lowest level in a month. "The market has only one thing to focus on, and that's politics," said Mr Adrian Owens, economist at Julius Baer Investments in London. "The economy has taken a back seat."

April consumer price data, due today, are expected to show retail prices rising at an annual rate of only 1 per cent, but analysts do not believe this will help OATs.

"In the longer term, in a single currency scenario, we would expect 10-year yields to widen back in line with bunds," said Mr Owens.

Short-term rates also rallied, with the June Pibor future on three-month interbank rates rising 0.16 to 96.50. Traders said sentiment was bullish from the start of the day, boosted by a Sunday opinion poll by Sofres, the polling agency, showing support for the centre-right coalition at 39.5 per cent. The government needs 38 per cent of votes to retain its majority in parliament.

Growth in OTC derivative products

By Samer Iskandar

Growth in the over-the-counter derivatives market continued to outpace that of exchange-traded derivatives throughout 1996, according to recent statistics. This trend has been most consistent in interest rate products, according to Swaps Monitor, a US financial risk management newsletter.

Outstanding amounts of exchange-traded interest rate futures were 24 per cent of those of OTC swaps at the end of 1996, down from 31 per cent a year earlier and 40 per cent at the end of the first quarter of 1995.

The fall was sharper in options. Exchange-traded options declined from 80 per cent of OTC options to 48 per cent during 1996.

Currency options fared even worse. After reaching a high of 3.2 per cent at the end of the third quarter of 1995, exchange-listed products fell to 1.5 per cent of their OTC counterparts in December last year.

Swaps Monitor said although the loss of market share was mainly due to specific factors affecting individual exchanges, one reason appeared to be general: swap dealers manage the net risk of their portfolios, not the aggregate risk of all their positions, many of which cancel each other out.

As a result, the notional size of an OTC swaps book may sometimes increase substantially but the net risk could remain unchanged. In such cases, the swaps trader's need to hedge, and the resulting need for hedging instruments such as futures, might not increase.

Five-year deal from Turkey

INTERNATIONAL BONDS

By Edward Luce and Richard Lapper

Turkey's first dollar sovereign issue this year grabbed attention yesterday in a market cautious ahead of next week's meeting of the US Federal Reserve.

Turkey's five-year $300m offer – raised from $250m on strong European demand – was its longest-dated issue since a seven-year eurobond in 1992.

Priced to yield 350 basis points over five-year US Treasuries, the issue sold out rapidly, according to officials at J.P. Morgan, joint-arrangers of the deal with SBC Warburg. About 15 per cent of the deal went to US investors – significantly stronger than the US demand for Turkey's three-year dollar offering last year.

"Turkey was very concerned to get US investors behind its paper again," an official said. The bonds, which were bid at the re-offer price in secondary trading, also sold strongly to European retail investors attracted by the 10 per cent coupon, bankers said.

Traders said the deal was priced attractively compared with previous sovereign issues, although Turkey has recently been downgraded by both S&P and Moody's.

Political instability has pushed the country's credit rating from investment grade in 1992 to just B/B1 in 1997. Its 1992 seven-year dollar sovereign was priced at 222 basis points over Treasuries compared with 350 points on yesterday's deal.

General Electric Capital Corp became the first US corporate borrower to tap the euro-denominated market. The five-year E150m bond, which was priced to yield 3 basis points over the benchmark ecu-OAT curve, was designed to signal GECC's confidence in the future European currency.

"GECC wanted to set a benchmark for other AAA-rated US borrowers. We had a lot of inquiries in the US about how the issue was structured," an official at lead manager Paribas said.

Total, the French oil company, launched its first dollar-denominated eurobond since 1984, taking advantage of increased interest in the seven-year area of the yield curve. Led by Morgan Stanley, the bonds were priced at 33 basis points over US Treasuries, offering a yield pick-up over two recent seven-year dollar issues by Kellogg and ABB.

Syndicate managers said that although many investors were not prepared to buy 10-year bonds, there was a more "optimistic tone" to the market than at any time since the increase in the Fed Funds rate six weeks ago.

Nomura targeted a Y30bn issue of repackaged US Treasuries at retail Japanese investors, reflecting continued buoyancy in the dual-currency market. The bonds, issued by New America, a special-purpose vehicle, are redeemable in US dollars and pay investors a coupon in yen of 5.25 per cent.

A syndicate manager said the coupon, equal to a yield spread of 22 basis points under US Treasuries, was more attractive than that on recent US corporate paper placed in Japan.

Banco BMC, the Brazilian commercial bank, raised $50m with an eight-year eurobond. The structure enables investors to sell back – and the issuer to call in the debt – after three and five years. The coupon steps up from 10.25 to 10.5 per cent at the end of the third year, and to 10.75 per cent after year five.

The bonds, issued under BMC's new $150m euro-medium term note and Euro-CD programme, give the bank funding costs equal to 395 basis points over three-year Treasuries.

A syndicate manager at lead manager West Merchant Bank said the spread was wider than on some recent Brazilian deals, but this reflected the size of the bank and the fact that it is relatively little known on the euromarkets. The bank last came to this market in 1993.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
[illegible]							
Total	300	6.875	99.681R	Jun 2004	0.30R	+38(6%Apr02)	Morgan Stanley & Co Intl
Suntrust Banks(a)★‡	300	(a1)	(a1)	2027	0.875	-	Lehman Brothers
Republic of Turkey	300	10.00	99.923R	May 2002	1.00R	+350(6⅝%-02)	JP Morgan/SBC Warburg
Banco BMC(b)	50	(b1)#	99.8233R	May 2005	0.875R	+395(6⅝%-00)	West Merchant Bank
[illegible]							
New America(c)★	30bn	5.25	100.00	May 2000	1.60	-	Nomura International
[illegible]							
RIBS(d)‡	225	(d)	101.337	May 2001	1.375	-	Deutsche Morgan Grenfell
Westdeutsche Landesbank	150	5.75	103.10	Jun 2007	2.75	-	SBC Warburg
Bank of Nova Scotia	100	3.125	102.10	Jul 2003	2.25	-	[illegible]
Dresdner Finance(e)	100	2.25	100.70	Jun 2001	1.75	-	CSFB
[illegible]							
Commerzbank O'seas Fin	250	5.00	99.815R	Jun 2003	0.30R	+10(6¼%Apr03)	ABN Amro Hoare Govett
Sara Lee Corp(e)	250	4.75	99.77R	Dec 2005	0.25R	+21(f)	ABN Amro Hoare Govett
[illegible]							
GECC(f)	150	5.125	99.87R	Jun 2002	0.25R	+3(6¾%Apr02)	Paribas
Banque Generale du Lux(f)	75	5.50	102.04	Jun 2003	1.875	-	BGL
[illegible]							
GenFinance Luxembourg(f)	200	(g)	102.50	Dec 2005	2.00	-	BGL
[illegible]							
Bayerische Hypo	100	7.75	100.875	Jun 1999	1.125	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable after 10 yrs at par. a1) Priced later: 3-mth Libor +72-75bp. b) Callable & puttable on 22/5/00 & 02 at par. b1) 10¼% to 22/5/00, then 10½% to 22/5/02, then 10¾%. c) Redeemed in US$. d) 3-mth Libor +8bp. e) Fungible with SFr300m. No accrued. f) Pays in Ecu prior to Emu. g) 5% to 27/12/01, then 7¼%. [illegible] Over interpolated yield. i) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	93.9353	-	7.66	7.66	8.14
Austria		5.750	04/07	100.3800	+0.370	5.70	5.78	5.94
Belgium		6.250	03/07	103.2300	+0.400	5.81	5.88	6.14
Canada *		7.000	12/06	103.3000	+0.050	6.53	6.49	6.78
Denmark		8.000	03/06	111.1900	+0.270	6.31	6.44	6.77
France	BTAN	4.750	03/02	100.4217	+0.210	4.65	4.72	4.92
	OAT	5.500	04/07	99.3400	+0.690	5.59	5.70	5.93
Germany Bund		6.000	01/07	102.1600	+0.420	5.69	5.73	6.01
Ireland		8.000	08/06	109.6500	+0.500	6.57	6.73	6.95
Italy		6.750	02/07	96.9500	+0.350	7.19†	7.40	7.89
Japan	No 145	5.500	03/02	116.4342	-0.030	1.62	1.57	1.42
	No 182	3.000	09/05	102.8157	-0.040	2.59	2.30	2.18
Netherlands		5.750	02/07	101.2200	+0.380	5.56	5.64	5.88
Portugal		9.500	02/06	118.7500	+0.580	6.47	6.64	7.09
Spain		7.350	03/07	105.5000	+0.610	6.58	6.64	7.25
Sweden		8.000	08/07	107.0953	+0.300	7.00	7.20	7.46
UK Gilts		7.000	06/02	100-24	+9/32	6.82	7.10	7.39
		7.250	12/07	102-04	+12/32	6.96	7.37	7.67
		9.000	10/08	115-09	+12/32	7.03	7.46	7.76
US Treasury *		6.250	02/07	97-10	+9/32	6.63	6.65	6.89
		6.625	02/27	96-30	+15/32	6.87	6.88	7.09
ECU (French Govt)		7.000	04/06	107.3500	+0.710	5.92	6.01	6.34

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	6.22
Broker loan rate	7¼	Two month	-	Three year	6.36
Fed.funds	5½	Three month	5.15	Five year	6.49
Fed.funds at intervention	-	Six month	5.45	10-year	6.65
		One year	5.82	30-year	6.87

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	129.78	130.30	+0.56	130.30	129.76	96,984	151,656
Sep	128.20	128.74	+0.54	128.70	128.20	1,604	11,281
Dec	97.62	98.16	+0.54	97.62	97.62	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	Jul	Sep	PUTS Jun	Jul	Sep
127	2.77	1.66	2.10	0.03	0.47	0.91
128	1.84	0.97	1.47	0.10	0.77	1.27
129	0.99	0.48	0.98	0.26	1.28	1.75
130	0.34	0.19	0.59	0.60	-	-
131	0.07	0.05	0.31	1.33	-	-

Est. vol. total, Calls 7,504 Puts 18,850. Previous day's open int., Calls 110,319 Puts 158,890.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	101.83	102.27	+0.50	102.32	101.79	150857	264453
Sep	100.86	101.29	+0.50	101.33	100.86	5827	26487

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
10200	0.52	0.41	0.65	0.80	0.25	1.12	1.36	1.51
10250	0.26	0.26	0.47	0.61	0.49	1.47	1.68	1.82
10300	0.11	0.16	0.32	0.46	0.84	1.87	2.03	2.17

Est. vol. total, Calls 16520 Puts 19128. Previous day's open int., Calls 218168 Puts 255383

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	129.32	129.72	+0.42	129.81	128.87	56742	113865
Sep	129.55	130.01	+0.43	130.00	129.20	165	6946

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	Sep	PUTS Jun	Sep
12950	0.71	2.38	0.49	1.87
13000	0.46	2.09	0.74	2.08
13050	0.26	1.78	1.04	2.27

Est. vol. total, Calls 3650 Puts 6336. Previous day's open int., Calls 114031 Puts 121569

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	115.00	115.72	+0.70	115.74	115.00	78,352	91,808
Sep	114.38	114.93	+0.71	114.89	114.38	278	1,456

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114-10	114-14	+0-07	114-16	113-29	74989	225484
Sep	114-16	114-24	+0-07	114-24	114-07	1753	5598

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
114	0-52	1-42	2-03	2-22	0-24	0-58	1-19	1-38
115	0-23	1-09	1-34	1-51	0-59	1-25	1-50	2-03
116	0-08	0-43	1-08	1-20	1-44	1-59	2-24	2-36

Est. vol. total, Calls 6130 Puts 812. Previous day's open int., Calls 81607 Puts 43156

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.50	95.94	+0.56	95.94	95.50	1,731	6,381
Sep	-	95.56	+0.56	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	110-01	110-05	-0-02	110-10	109-28	486,426	513,367
Sep	109-22	109-27	-	109-27	109-17	3,512	64,493
Dec	-	109-06	-	-	-	144	9,858

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	123.55	-	-	123.42	123.22	3484	n/a
Sep	122.18	-	-	122.04	121.89	1964	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon May 12	Day's change %	Fri May 9	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	120.40	0.13	120.24	2.03	4.58
2 5-15 years (21)	154.98	0.24	154.79	3.47	3.30
3 Over 15 years (8)	181.33	0.09	181.23	5.81	3.16
4 Irredeemables (6)	211.08	-0.34	211.81	5.14	2.37
5 All stocks (51)	148.44	0.17	148.27	3.35	3.86
Index-linked					
6 Up to 5 years (2)	205.09	0.09	204.91	0.68	3.03
7 Over 5 years (10)	197.64	0.21	197.22	1.05	2.88
8 All stocks (12)	197.35	0.20	196.96	1.01	2.86

UK Indices

	Low coupon yield May 12	May 9	Yr. ago	Medium coupon yield May 12	May 9	Yr. ago	High coupon yield May 12	May 9	Yr. ago
5 yrs	6.83	6.88	7.52	6.89	6.95	7.54	6.94	7.02	7.66
15 yrs	7.03	7.05	8.21	7.07	7.08	8.22	7.19	7.10	8.32
20 yrs	7.09	7.10	8.29	7.09	7.10	8.29	7.22	7.10	8.36
Irred.†	7.25	7.21	8.35						

	Inflation 5% May 12	May 9	Yr. ago	Inflation 10% May 12	May 9	Yr. ago
Up to 5 yrs	3.26	3.28	2.67	2.66	2.67	1.33
Over 5 yrs	3.54	3.56	3.80	3.35	3.36	3.60

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	May 12	May 9	May 8	May 7	May 6	Yr ago	High*	Low*
Govt. Secs. (UK)	96.57	97.20	96.89	96.64	96.80	92.40	97.20	93.31
Fixed Interest	121.24	118.57	119.28	119.19	118.83	111.82	121.24	115.32

Gilt Edged Activity Indices

	May 9	May 8	May 7	May 6	May 2
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 12

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. [illegible]

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UK GILTS PRICES

	Notes	Yield Int	Red	Price £	+ or –	52 week High	Low
Shorts" (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		6.98	6.19	100⅛	—	101⅛	100⅛
Treas 8¾pc 1997‡‡		8.68	6.12	100¾	—	107[illegible]	100[illegible]
Exch 15pc 1997		14.44	6.27	103[illegible]	—	114⅞	103[illegible]
Exch 9¾pc 1998		9.54	6.33	102[illegible]	+[illegible]	106[illegible]	100[illegible]
Treas 7¼pc 1998‡‡		7.20	6.46	100⅝	+[illegible]	109[illegible]	100[illegible]
[illegible]							
Treas 7¾pc 2006‡‡		7.37	6.89	105[illegible]	+¼	107¼	96[illegible]
Treas 8pc 2002-6‡‡		7.72	7.07	103⅝	[illegible]	104[illegible]	98[illegible]
Treas 11¾pc 2003-7		9.63	6.98	122[illegible]	+[illegible]	124[illegible]	115¼
Treas 8½pc 2007‡‡		7.67	6.99	110[illegible]	+[illegible]	111[illegible]	101⅞
Treas 7 1/4pc 2007‡‡		7.10	6.96	102[illegible]	+[illegible]	102[illegible]	95[illegible]
[illegible]							
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	-	2.19	114[illegible]	+[illegible]	114[illegible]	112[illegible]
2½pc '01	(78.3)	2.84	3.25	187½	+[illegible]	187[illegible]	178[illegible]
2½pc '03	(78.8)	2.95	3.38	183[illegible]	+[illegible]	184[illegible]	173[illegible]
4⅜pc '04‡‡	(135.6)	3.07	3.39	118[illegible]	+[illegible]	120[illegible]	113[illegible]
2pc '06	(69.5)	3.15	3.45	193¼	+[illegible]	195[illegible]	181¼
2½pc '09	(78.8)	3.24	3.48	173[illegible]	+[illegible]	176[illegible]	162[illegible]
[illegible]							

Other Fixed Interest

	Notes	Yield (1)	(2)	Price £	+ or –	52 week High	Low
[illegible]							

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Sterling in black after Brown move

MARKETS REPORT

By Richard Adams

Sterling jumped sharply in late trading in London yesterday, after Mr Gordon Brown, the UK chancellor, said the new government ruled out taking the pound back into the European exchange rate mechanism.

"There has been no change in our position," Mr Brown said after a EU meeting in Brussels. "We have no plans to rejoin the ERM."

Sterling gained almost three pfennigs against the German D-Mark within minutes of his remarks being reported by Reuters, as the Chancellor ended speculation over UK re-entry.

The pound closed at DM2.7628, 2.05 pfennigs higher than at the close of trading in London on Friday. Sterling was also helped by a late surge in gilts and a stronger US dollar during the afternoon. By the close the pound was also up half a cent to $1.6248.

Sterling's trade-weighted index value rose from 97.5 when the market opened at 8am, rising to close at 98.5.

The dollar rebounded from its weakness on the Far Eastern markets on Monday, climbing back from below Y117 to end at Y118.5. But that was still 3.2 yen below its close in London.

Against the D-Mark, the dollar rose 0.7 of a pfennig to DM1.7004.

■ Mr Brown's comments went a long way to quashing last week's rampant speculation that the UK was considering re-entering the ERM, supposedly at a central rate of DM3.50.

The ERM talk, coming alongside a weakening US dollar, knocked 10 pfennigs off the pound.

But the UK currency remained shaky on Monday, as early direction was given by indications of weak pipeline inflation with factory gate price increases at the lowest level for 10 years.

The mood was not helped by reports of comments by the newly-empowered Mr Eddie George, the governor of the Bank of England, saying that the economy could reach the government's 2.5 per cent inflation target.

But sterling perked up following comments by Mr Theo Waigel, the German finance minister, that the condition of ERM membership for two years was still in force.

Then Mr Brown's plain denial of the recent rumours boosted sterling even further, helped by a surging gilts market. On Liffe, the June long gilt contract ended 9/32 higher, at 114 5/32.

Irish Punt

Source: Datastream

But Mr Brown also said he did not think a two-year membership of the ERM was necessary for joining a single currency. Asked if the two-year membership rule for EMU was cast in stone, Mr Brown replied: "No."

■ The yen stabilised against the dollar, after the dollar found support at Y118 in London. Dealers said talk of a September rate rise in Japan was making the yen more attractive.

The dollar had sunk to Y117.50 during trading in Tokyo on Monday, before finding its footing.

Traders had a host of comments during the weekend to take note of. Mr Eisuke Sakakibara, head of the Japanese finance ministry's international finance bureau, said the dollar's fall since Friday was "not overly excessive."

Mr Shoichiro Toyoda, chairman of Japan's Federation of Economic Organisations, said Japan's low interest rates should not remain at present levels. He said the yen's "appropriate" range was between Y110-Y120.

Mr Marc Chandler, an analyst at Deutsche Morgan Grenfell in London, noted that for the first time in five weeks, the Bank of Japan balanced funds in the banking system, putting up the overnight rate up to 0.47.

"Before an ODR hike, it seems likely that Japanese monetary authorities would want to normalise money market conditions by allowing overnight rates to trade above the discount rate," Mr Chandler said.

■ The Irish punt was caught in the Euro-crossfire against sterling yesterday. After a strong performance in the morning, the punt dropped in the afternoon as Mr Brown's comments pushed the pound upwards.

The punt closed against the UK pound at I£1.0714, down 0.49 from Friday. Against the US dollar, the punt strengthened to I£1.5166, up 0.18.

■ Pound in New York

May 12	—Latest—	— Prev. close —
£ spot	1.6235	1.6230
1 mth	1.6226	1.6222
3 mth	1.6212	1.6205
1 yr	1.6148	1.6136

■ OTHER CURRENCIES

May 12	£	$
Czech Rp	45.5883 - 45.6673	28.0290 - 28.3590
Hungary	293.562 - 293.854	180.730 - 180.800
Iran	4875.00 - 4872.00	3000.00 - 3003.00
Kuwait	0.4918 - 0.4922	0.3028 - 0.3029
Poland	5.1088 - 5.1148	3.1435 - 3.1465
Russia	9341.35 - 9351.98	5751.00 - 5754.00
U.A.E.	5.9657 - 5.9698	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.4464	+0.1449	364 - 583	19.4660	19.1109	19.3929	3.3	19.3049	2.9	-	-	103.5
Belgium	(BFr)	57.0248	+0.4105	691 - 805	57.0800	56.0850	56.8698	3.3	56.5548	3.3	55.1248	3.3	103.3
Denmark	(DKr)	10.5219	+0.0826	170 - 267	10.5267	10.3483	10.4964	2.9	10.4439	3.0	10.2224	2.8	105.0
Finland	(FM)	8.3518	+0.0582	439 - 597	8.3597	8.2070	-	-	-	-	-	-	82.2
France	(FFr)	9.3134	+0.0618	089 - 178	9.3178	9.1568	9.2892	3.1	9.2413	3.1	9.0187	3.2	108.2
Germany	(DM)	2.7628	+0.0205	615 - 641	2.7664	2.7120	2.7552	3.3	2.7392	3.4	2.6666	3.4	104.8
Greece	(Dr)	441.326	+4.381	030 - 627	441.859	432.046	-	-	-	-	-	-	65.2
Ireland	(I£)	1.0714	+0.0049	708 - 721	1.0721	1.0605	1.0715	-0.1	1.0705	0.3	1.0635	0.7	99.0
Italy	(L)	2740.14	+21.73	806 - 221	2742.21	2693.52	2741.84	-0.7	2749.24	-1.3	2747.09	-0.3	78.0
Luxembourg	(LFr)	57.0248	+0.4105	691 - 805	57.0805	56.0850	56.8698	3.3	56.5548	3.3	55.1248	3.3	103.3
Netherlands	(Fl)	3.1079	+0.0237	063 - 094	3.1105	3.0576	3.0994	3.3	3.0814	3.4	3.0033	3.4	102.9
Norway	(NKr)	11.6237	+0.1147	161 - 313	11.6345	11.2863	11.4932	3.2	11.4357	3.1	11.1877	2.9	98.2
Portugal	(Es)	278.401	+2.415	275 - 526	278.528	274.496	278.251	0.6	277.876	0.8	-	-	94.2
Spain	(Pta)	233.719	+1.76	607 - 832	233.832	230.250	233.559	0.8	233.119	1.0	230.364	1.4	77.8
Sweden	(SKr)	12.4871	+0.0596	760 - 981	12.4961	12.3397	12.4656	2.1	12.4178	2.2	12.2228	2.1	83.9
Switzerland	(SFr)	2.3326	+0.0196	312 - 339	2.3354	2.2852	2.3232	4.8	2.3041	4.9	2.2201	4.8	104.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	98.5
Ecu	-	1.4213	+0.0107	205 - 221	1.4221	1.4018	1.4186	2.2	1.4127	2.4	1.3856	2.5	-
SDR†	-	1.175730	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6245	+0.0059	240 - 251	1.6257	1.6158	-	-	-	-	-	-	-
Brazil	(R$)	1.7335	+0.0071	325 - 340	1.7340	1.7230	-	-	-	-	-	-	-
Canada	(C$)	2.2582	+0.0086	570 - 593	2.2647	2.2490	2.2519	3.3	2.2405	3.1	2.1987	2.6	84.1
Mexico	(New Peso)	12.6774	+0.0785	710 - 836	12.6838	12.6092	-	-	-	-	-	-	-
USA	($)	1.6248	+0.0054	243 - 253	1.6265	1.6163	1.624	0.6	1.6223	0.6	1.6165	0.5	103.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0984	+0.0061	851 - 877	2.0947	2.0736	2.0858	0.3	2.0839	0.5	2.0739	0.6	98.3
Hong Kong	(HK$)	12.5825	+0.0401	775 - 871	12.5972	12.5178	12.5765	0.6	12.5659	0.5	12.5312	0.4	-
India	(Rs)	58.2348	+0.1855	992 - 693	58.2693	57.9390	-	-	-	-	-	-	-
Israel	(Shk)	5.5138	+0.0157	084 - 211	5.5211	5.4605	-	-	-	-	-	-	-
Japan	(Y)	192.531	-4.55	398 - 663	194.360	191.070	191.471	6.6	189.481	6.4	180.646	6.2	127.9
Malaysia	(M$)	4.0802	+0.0195	781 - 823	4.0823	4.0479	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3357	+0.0207	338 - 376	2.3495	2.3173	2.3356	0.1	2.3365	-0.1	2.3437	-0.3	114.5
Philippines	(Peso)	42.8501	+0.1465	003 - 998	42.8598	42.3583	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0939	+0.0204	918 - 959	6.0999	6.0623	-	-	-	-	-	-	-
Singapore	(S$)	2.3316	-0.0012	301 - 331	2.3389	2.3148	-	-	-	-	-	-	-
South Africa	(R)	7.2491	+0.0274	444 - 537	7.2537	7.2143	-	-	-	-	-	-	-
South Korea	(Won)	1448.51	+1.58	400 - 302	1453.02	1440.27	-	-	-	-	-	-	-
Taiwan	(T$)	45.0963	+0.2632	418 - 508	45.1508	44.7728	-	-	-	-	-	-	-
Thailand	(Bt)	42.1148	+0.0428	937 - 359	42.2240	41.8610	-	-	-	-	-	-	-

† Rates for May 9. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.9685	+0.0498	660 - 709	11.9820	11.8085	11.946	2.3	11.8973	2.4	11.6485	2.7	103.2
Belgium	(BFr)	35.0965	+0.1385	750 - 200	35.1200	34.5840	35.0215	2.6	34.8865	2.6	34.1265	2.8	103.5
Denmark	(DKr)	6.4758	+0.0294	748 - 768	6.4821	6.3875	6.464	2.2	6.4393	2.3	6.3273	2.3	105.7
Finland	(FM)	5.1402	+0.0237	369 - 435	5.1435	5.0605	5.1283	2.8	5.1039	2.8	4.9957	2.8	82.0
France	(FFr)	5.7320	+0.018	310 - 330	5.7351	5.6674	5.7203	2.4	5.6978	2.4	5.5825	2.6	105.9
Germany	(DM)	1.7004	+0.007	001 - 007	1.7024	1.6685	1.6967	2.6	1.689	2.7	1.6521	2.8	104.8
Greece	(Dr)	271.620	+1.6	520 - 720	271.890	265.760	272.505	-3.9	274.045	-3.6	280.32	-3.2	65.3
Ireland	(I£)	1.5166	-0.0018	160 - 172	1.5265	1.5132	1.5159	0.5	1.5153	0.3	1.5121	0.3	-
Italy	(L)	1686.45	+7.8	570 - 720	1687.00	1661.30	1688.35	-1.4	1691.05	-1.1	1693.35	-0.4	76.0
Luxembourg	(LFr)	35.0965	+0.1385	730 - 200	35.1200	34.5840	35.0215	2.6	34.8865	2.6	34.1265	2.8	103.5
Netherlands	(Fl)	1.9128	+0.0068	124 - 131	1.9150	1.8878	1.9087	2.6	1.9001	2.7	1.8597	2.8	103.1
Norway	(NKr)	7.0824	+0.0472	820 - 849	7.0899	6.9609	7.0761	2.1	7.0496	2.4	6.9229	2.4	97.9
Portugal	(Es)	171.345	+0.92	320 - 370	171.370	169.600	171.33	0.1	171.265	0.2	169.955	0.8	94.9
Spain	(Pta)	143.845	+0.62	820 - 870	143.870	141.890	143.845	0.0	143.768	0.2	142.51	0.9	77.8
Sweden	(SKr)	7.6853	+0.0093	821 - 885	7.6907	7.6175	7.6779	1.2	7.6563	1.5	7.5608	1.6	83.6
Switzerland	(SFr)	1.4356	+0.0073	352 - 360	1.4375	1.4115	1.4307	4.1	1.421	4.1	1.3753	4.2	105.2
UK	(£)	1.6248	+0.0054	243 - 253	1.6265	1.6163	1.624	0.6	1.6223	0.6	1.6165	0.5	97.7
Ecu	-	1.1432	-0.0049	429 - 435	1.1548	1.1425	1.1446	-1.5	1.148	-1.7	1.1656	-2.0	-
SDR†	-	0.72518	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0668	+0.0008	666 - 669	1.0669	1.0660	-	-	-	-	-	-	-
Canada	(C$)	1.3898	+0.0006	895 - 901	1.3931	1.3899	1.3868	2.5	1.3813	2.4	1.3625	2.0	83.8
Mexico	(New Peso)	7.8250	+0.022	240 - 270	7.8270	7.8220	8.034	-18.4	8.2355	-15.6	9.2305	-16.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	104.8
Pacific/Middle East/Africa													
Australia	(A$)	1.2841	-0.0005	837 - 845	1.2829	1.2837	1.2845	-0.4	1.2848	-0.2	1.2836	0.0	99.0
Hong Kong	(HK$)	7.7440	-0.0011	435 - 445	7.7450	7.7430	7.745	-0.2	7.7464	-0.1	7.7585	-0.2	-
India	(Rs)	35.8350	-0.005	100 - 600	35.8600	35.8100	35.825	-3.0	36.21	-4.2	34.015	5.1	-
Israel	(Shk)	3.3935	-0.0029	900 - 970	3.3970	3.3758	-	-	-	-	-	-	-
Japan	(Y)	118.495	-3.205	450 - 540	119.740	117.500	117.94	5.6	116.835	5.6	111.935	5.5	125.2
Malaysia	(M$)	2.5112	+0.0037	107 - 117	2.5125	2.5005	2.5135	-1.1	2.5176	-1.0	2.5345	-0.9	-
New Zealand	(NZ$)	1.4375	-0.0178	368 - 382	1.4382	1.4368	1.4385	-0.7	1.4407	-0.9	1.4508	-0.9	-
Philippines	(Peso)	26.3725	+0.0025	500 - 950	26.3800	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4350	-0.0055	345 - 355	1.4365	1.4302	1.4334	1.4	1.4293	1.6	1.4075	1.9	-
South Africa	(R)	4.4615	+0.002	600 - 630	4.4630	4.4590	4.501	-10.6	4.5785	-10.5	4.8765	-9.3	-
South Korea	(Won)	891.500	-2	000 - 000	894.000	889.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.7550	+0.07	300 - 800	27.7800	27.7080	27.7558	0.0	27.757	0.0	27.7613	0.0	-
Thailand	(Bt)	25.9200	-0.06	150 - 250	25.9250	25.8250	25.9813	-2.8	26.105	-2.9	26.675	-2.9	-

† SDR rate per $ for May 9. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 9: Base average 1990=100.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 12	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅛	3⅛	3¼	3⅜	5.00	2.50	-
France	3⅛	3¼	3⅜	3⅜	3½	3.10	-	4.75
Germany	3¼	3⅛	3⅛	3¼	3⅜	4.50	2.50	3.00
Ireland	6	6⅛	6¼	6⅜	6	-	-	6.75
Italy	7¼	6⅞	6⅞	6⅞	6⅞	8.25	6.75	7.34
Netherlands	3⅛	3⅛	3⅛	3¼	3⅜	-	3.00	3.30
Switzerland	1⅜	1⅝	1⅝	1⅝	1⅞	-	1.00	-
US	5⅝	5⅝	5⅞	5⅞	6⅛	-	5.00	-
Japan	½	½	½	½	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	6	6⅛	-	-	-
US Dollar CDs	-	5.52	5.63	5.72	5.98	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4¼	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3¾	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 12	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.42	96.50	+0.16	96.50	96.40	42,687	86,970
Sep	96.48	96.54	+0.11	96.54	96.47	9,836	60,672
Dec	96.47	96.54	+0.10	96.55	96.47	5,728	37,223

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.78	96.80	+0.02	96.80	96.78	12759	230717
Sep	96.75	96.76	+0.02	96.78	96.74	14586	212932
Dec	96.62	96.65	+0.03	96.65	96.62	17012	237761
Mar	96.50	96.54	+0.04	96.54	96.49	10482	191301

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May	96.83	96.83	+0.01	96.83	96.82	100	4166
Jun	96.81	96.82	+0.01	96.82	96.81	350	935
Jul	-	96.80	+0.01	-	-	0	300
Aug	-	96.79	+0.01	-	-	0	5

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.25	93.25	+0.01	93.28	93.19	17852	109415
Sep	93.57	93.58	-	93.58	93.52	19195	80803
Dec	93.70	93.71	+0.01	93.72	93.66	9815	55041
Mar	93.75	93.77	+0.03	93.78	93.71	4972	34135

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.21	98.24	+0.03	98.25	98.19	6620	49539
Sep	98.20	98.23	+0.03	98.24	98.18	6581	35612
Dec	98.07	98.11	+0.04	98.11	98.06	3051	24356
Mar	97.87	98.01	+0.04	98.02	97.96	1485	9468

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.32	99.32	+0.02	99.32	99.32	100	n/a
Sep		99.12	+0.02	-	-	0	n/a
Dec	98.87	98.87	+0.02	98.87	98.87	100	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.84	95.86	+0.04	95.87	95.83	711	7396
Sep	95.84	95.87	+0.05	95.87	95.82	389	5733
Dec	95.78	95.80	+0.05	95.83	95.76	142	5837
Mar	95.69	95.71	+0.05	95.71	95.69	645	3643

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.13	0.46	0.64	0.13	0.15	0.18
9350	0.04	0.29	0.47	0.29	0.23	0.26
9375	0.01	0.17	0.33	0.51	0.36	0.37

Est. vol. total, Calls 4744 Puts 1420. Previous day's open int., Calls 155353 Puts 76115

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 12		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.33	4.845	1.879	4805	5.450	20.21	488.2	409.9	21.90	4.090	1.754	3.960	2.849	337.6	2.492
Denmark	(DKr)	54.20	10	8.851	2.626	1.018	2604	2.954	10.95	264.6	222.1	11.87	2.217	0.950	2.146	1.544	183.0	1.351
France	(FFr)	61.23	11.30	10	2.967	1.150	2942	3.337	12.37	298.9	251.0	13.41	2.505	1.074	2.425	1.745	206.7	1.526
Germany	(DM)	20.64	3.808	3.371	1	0.388	991.8	1.125	4.171	100.8	84.59	4.520	0.844	0.362	0.817	0.588	69.69	0.514
Ireland	(I£)	53.23	9.821	8.693	2.579	1	2558	2.901	10.76	259.9	218.2	11.66	2.177	0.933	2.108	1.517	179.7	1.327
Italy	(L)	2.081	0.384	0.340	0.101	0.039	100	0.113	0.421	10.16	8.529	0.456	0.085	0.037	0.082	0.059	7.026	0.052
Netherlands	(Fl)	18.35	3.386	2.997	0.889	0.345	881.7	1	3.708	89.58	75.20	4.018	0.751	0.322	0.727	0.523	61.95	0.457
Norway	(NKr)	49.48	9.131	8.082	2.398	0.930	2378	2.697	10	241.6	202.8	10.84	2.024	0.868	1.960	1.410	167.1	1.233
Portugal	(Es)	20.48	3.779	3.345	0.992	0.385	984.2	1.116	4.139	100	83.95	4.485	0.838	0.359	0.811	0.584	69.16	0.511
Spain	(Pta)	24.40	4.502	3.985	1.182	0.458	1172	1.330	4.931	119.1	100	5.343	0.998	0.428	0.966	0.695	82.38	0.608
Sweden	(SKr)	45.67	8.426	7.458	2.213	0.858	2194	2.489	9.229	223.0	187.2	10	1.868	0.801	1.808	1.301	154.2	1.138
Switzerland	(SFr)	24.45	4.511	3.993	1.184	0.459	1175	1.332	4.940	119.4	100.2	5.353	1	0.429	0.968	0.697	82.54	0.609
UK	(£)	57.02	10.52	9.313	2.763	1.071	2740	3.108	11.52	278.4	233.7	12.49	2.333	1	2.258	1.625	192.5	1.421
Canada	(C$)	25.25	4.660	4.124	1.223	0.474	1213	1.376	5.103	123.3	103.5	5.530	1.033	0.443	1	0.720	85.26	0.629
USA	($)	35.10	6.476	5.732	1.700	0.659	1686	1.913	7.082	171.3	143.8	7.685	1.436	0.615	1.390	1	118.5	0.875
Japan	(Y)	29.62	5.465	4.837	1.435	0.556	1423	1.614	5.985	144.6	121.4	6.486	1.212	0.519	1.173	0.844	100	0.738
Ecu	-	40.12	7.403	6.553	1.944	0.754	1928	2.187	8.108	195.9	164.4	8.786	1.641	0.704	1.589	1.143	135.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5952	0.5904	-0.0037	0.5924	0.5904	43,049	83,339
Sep	0.6000	0.5944	-0.0036	0.6034	0.5944	611	3,540
Dec	-	0.6021	-	-	0.5990	110	414

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8422	0.8478	+0.0140	0.8544	0.8406	78,235	85,001
Sep	0.8537	0.8595	+0.0146	0.8630	0.8500	778	2,071
Dec	0.8700	0.8705	+0.0141	0.8710	0.8700	55	710

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7065	0.7002	-0.0053	0.7149	0.7002	55,130	44,766
Sep	0.7150	0.7073	-0.0054	0.7175	0.7073	456	2,348
Dec	0.7175	0.7175	-0.0028	0.7175	0.7155	27	409

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6230	1.6150	-0.0062	1.6254	1.6150	11,344	38,731
Sep	1.6150	1.6140	-0.0048	1.6150	1.6134	131	1,053
Dec	-	1.6160	-	-	1.6090	1	110

UK INTEREST RATES

LONDON MONEY RATES

May 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 5/16 - 3	6 3/16 - 6 1/16	6 5/16 - 6 3/16	6 7/16 - 6 3/8	6 11/16 - 6 9/16	6 15/16 - 6 13/16
Sterling CDs	-	-	6 9/32 - 6 7/32	6 13/32 - 6 11/32	6 5/8 - 6 1/2	6 27/32 - 6 25/32
Treasury Bills	-	-	6 7/16 - 6 3/8	6 3/8 - 6 1/4	-	-
Bank Bills	-	-	6 7/32 - 6 5/32	6 11/32 - 6 9/32	6 9/16 - 6 7/16	-
Local authority deps.	6 1/8 - 6	6 1/8 - 6	6 1/4 - 6 7/32	6 7/16 - 6 3/8	6 21/32 - 6 19/32	6 31/32 - 6 29/32
Discount Market deps	6 1/4 - 6	6 1/8 - 6	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from May 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Certs of Tax dep. under £100,000 is 2½pc. ECGD fixed rate Stlg. Export Finance. Make up day Apr 30, 1997. Agreed rate for period May 28, 1997 to Jun 24, 1997, Scheme III 7.71pc. Reference rate for period Mar 28, 1997 to Apr 30, 1997, Schemes IV & V 6.450pc. Finance House Base Rate 6½pc from May 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.46	93.48	+0.03	93.50	93.46	14609	114067
Sep	93.24	93.27	+0.06	93.30	93.24	27757	101076
Dec	93.08	93.14	+0.09	93.16	93.08	39612	86111
Mar	92.99	93.04	+0.10	93.05	92.98	13959	59014
Jun	92.91	92.96	+0.09	92.96	92.91	11711	49086

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.24	0.15	0.16	0.01	0.13	0.27
9350	0.05	0.05	0.07	0.07	0.28	0.43
9375	0	0.01	0.03	0.27	0.49	0.64

Est. vol. total, Calls 9656 Puts 3470. Previous day's open int., Calls 178479 Puts 164384

EMS EUROPEAN CURRENCY UNIT RATES

May 12	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.759400	-0.000041	-4.92	7.20	33
Portugal	197.398	196.706	+0.119	-0.35	2.28	2
Finland	5.85424	5.90025	+0.0024	0.79	1.13	-5
Spain	163.826	165.228	+0.127	0.86	1.06	-6
Netherlands	2.16979	2.19620	-0.00189	1.22	0.70	-9
Denmark	7.34555	7.43611	-0.00388	1.23	0.68	-8
Germany	1.92573	1.95253	-0.00173	1.39	0.53	-14
Austria	13.5485	13.7427	-0.0119	1.43	0.48	-10
Belgium	39.7191	40.3013	-0.0285	1.47	0.45	-11
Italy	1906.48	1938.64	+4.02	1.69	0.23	-12
France	6.45863	6.58294	-0.01189	1.92	0.00	-16
NON ERM MEMBERS						
Greece	295.269	312.071	+0.987	5.69	-3.56	-
UK	0.793103	0.712680	+0.003421	-10.14	13.43	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS May	Jun	Jul	PUTS May	Jun	Jul
1.610	1.44	2.17	2.60	0.29	1.09	1.81
1.620	0.73	1.61	2.11	0.64	1.54	2.22
1.630	0.48	1.17	1.66	1.23	2.10	2.88

Previous day's vol., Calls 582 Puts 301. Prev. day's open int., Calls 35,241 Puts 35,332

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS May	Jun	Jul	PUTS May	Jun	Jul
0.580	1.29	1.57	1.80	0.02	0.21	0.32
0.585	0.84	1.19	1.44	0.07	0.32	0.43
0.590	0.45	0.86	1.18	0.15	0.45	0.62

Previous day's vol., Calls 660 Puts 884. Prev. day's open int., Calls 26,848 Puts 41,164

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.12	94.11	-	94.11	94.11	101,318	470,531
Sep	93.92	93.94	+0.01	93.94	93.92	136,534	432,496
Dec	93.70	93.72	-	93.73	93.70	208,879	327,993

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.74	94.73	-	94.74	94.73	251	5,901
Sep	94.53	94.53	+0.01	94.53	94.53	680	4,336
Dec	-	94.60	-	-	-	-	-

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS May	Jun	Jul	Sep	PUTS May	Jun	Jul	Sep
9675	0.06	0.06	0.05	0.07	0.01	0.01	0.04	0.06
9700	0	0.01	0.01	0.01	0.20	0.21	0.25	0.25
9725	0	0	0	0	0.45	0.45	0.49	0.49

Est. vol. total, Calls 2745 Puts 4059. Previous day's open int., Calls 483594 Puts 274699

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9825	0.07	0.12	0.16	0.08	0.14	0.30
9850	0.01	0.04	0.07	0.27	0.31	0.46

Est. vol. total, Calls 200 Puts 0. Previous day's open int., Calls 1475 Puts 1840

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	Royal Bk of Scotland	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.25	●Singer & Friedlander	6.25
●Henry Ansbacher	6.25	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.25
Bank of Baroda	6.25	●Robert Fleming & Co	6.25	Scottish Widows Bank	6.00
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	TSB	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	United Bank of Kuwait	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Unity Trust Bank Plc	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.25	Western Trust	6.25
Bank of Scotland	6.25	●Hill Samuel	6.0	Whiteaway Laidlaw	6.25
Barclays Bank	6.25	C. Hoare & Co	6.25	Yorkshire Bank	6.00
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25		
●Brown Shipley & Co Ltd	6.25	Investec Bank (UK) Ltd	6.25		
Citibank NA	6.25	Julian Hodge Bank	6.25		
Clydesdale Bank	6.25	●Leopold Joseph & Sons	6.25		
The Co-operative Bank	6.25	Lloyds Bank	6.25		
Coutts & Co	6.25	Midland Bank	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.25		
		●Rea Brothers	6.25		

● Members of London Investment Banking Association
* In administration

ESPIRITO SANTO FINANCIAL HOLDING S.A.

Société Anonyme
Luxembourg, 37, rue Notre-Dame
R.C. Luxembourg B 22232

Notice of Meeting

Messrs Shareholders are hereby convened to attend the Annual General Meeting which will be held on Friday 30th May 1997 at 11.00 a.m. at the offices of Kredietbank S.A. Luxembourgeoise, 43, boulevard Royal, Luxembourg, with the following agenda:

Agenda

1. Management report by the Board of Directors and Auditors' report on Statutory and Consolidated Accounts for the year to 31st December 1996
2. Approval of the audited accounts and of the distribution of earnings for the period ended 31st December 1996
3. Discharge of the Board of Directors and Statutory Auditors in respect of the year ended 31st December 1996
4. Proposal to increase by one the number of Directors and to appoint Mr. Rui Barros Costa as a Director
5. Any Other Business

In accordance with Luxembourg law dated 4th December 1992, concerning important shareholdings in companies listed on the Luxembourg Stock Exchange, any shareholders who are the beneficial owners of more than 10% of the shares of the Company directly or in the form of ADS's, are requested to disclose their positions.

The Board of Directors

NOTICE OF REDEMPTION
Nacional Financiera, S.N.C., Trust Division
as Trustee of the Nafin Finance Trust
Guaranteed Floating Rate Notes Due 1997
CUSIP No. 629718-AA5*

NOTICE IS HEREBY GIVEN, pursuant to the Indenture dated as of December 15, 1992 under which the above described Notes were issued that Nacional Financiera, S.N.C., Trust Division, as Trustee of the Nafin Finance Trust will redeem on June 16, 1997, 53.16455696620% of the Outstanding Principal Amount of the Notes, amounting to $1,260,000.00 on a pro rata basis in accordance with their respective Outstanding Principal Amounts. The amount of principal to be paid with respect to each $10,000 principal is $63.00.

On June 16, 1997, there will become due and payable on each Note the above amount, together with interest accrued to June 16, 1997. On and after such date interest will cease to accrue on the Notes (or portion thereof so redeemed).

Payment of the redemption amount plus accrued interest on Bearer Notes will be made upon presentation and surrender of the appropriate coupon to one of the Paying Agents listed below:

Citibank, N.A.
336 The Strand
London, WC2R 1HB
England

Citibank (Luxembourg) S.A.
16 Avenue Marie-Therese
Grand Duchy of Luxembourg
Luxembourg

Citibank, N.A., as Note Trustee

May 13, 1997

*This CUSIP number has been assigned by Standard & Poor's Corporation and is included solely for the convenience of the holders. Neither the Issuer nor the Note Trustee shall be responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness on the Notes or as indicated in this notice.

NOTICE

As of January 1, 1993, withholding of 31% of gross proceeds of any interest payment made within the United States may be required by the Internal Revenue Code of 1986, as amended by the Energy Policy Act of 1992, unless the Paying Agent has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent when presenting your securities.

Templeton

Templeton Global Strategy Funds
Société d'investissement à capital variable
26, boulevard Royal, L-2449 Luxembourg
R.C. B 35 177

Dividend announcement

Templeton Global Strategy Funds will pay dividends to the Shareholders of the following Funds as of record on May 8, 1997, against presentation of the respective coupons:

Fund	Currency	Amount per Share	Coupon number	Payment date
Templeton Global Income Fund - Class A	USD	0.05	20	16.05.1997
Templeton Emerging Markets Fixed Income Fund - Class A	USD	0.065	20	16.05.1997

Principal Paying Agent:
Chase Manhattan Bank Luxembourg S.A.
5, rue Plaetis
L-2338 Luxembourg

The Shares are traded ex-dividend as from May 9, 1997.

For further information, Shareholders are invited to contact their nearest Templeton office:

Edinburgh
Tel:
Toll-free from U.K.
0800 305 306
International
(44) 131 469 4000
Fax: (44) 131 228 4506

Frankfurt
Tel: (49) 69 272 23 272
Fax: (49) 69 272 23 120

Hong Kong
Tel: (852) 2877 7733
Fax: (852) 2877 5401

Luxembourg
Tel: (352) 46 66 67 212
Fax: (352) 22 21 60

The Board of Directors
May 1997

NOTICE OF PROPOSED STOCK DIVIDEND AND CLOSE OF SHAREHOLDERS' ROSTER
TO HOLDERS OF
UNITED MICROELECTRONICS CORPORATION
US$160,000,000 1.25% BONDS DUE 2004 (the "Bond")

NOTICE IS HEREBY GIVEN that pursuant to clauses 6(A) and 6(D) of the Trust Deed between the Trustee and the United Microelectronics Corporation dated June 8, 1994.
(1) The Company intends to declare a stock dividend in 1997. The Company's Board of Directors on April 18, 1997 adopted a resolution proposing that the Company declare a stock dividend to its holders of common shares (i.e., one existing share would receive 0.3 common share). As required by the ROC company law, the above-stated proposal must be submitted to the Company's general shareholders' meeting for approval. The next general shareholders' meeting is scheduled to be held on June 24, 1997.
(2) Pursuant to Article 165 of the ROC Company Law, the Company's shareholders' register must close for recordation for a period of 30 days before the general shareholders' meeting. Therefore, no shareholder's registration will be made on the Company's shareholders' Roster between May 25 and June 24, 1997. Consequently no conversion from Bondholders will be accepted by the Company during the said period.

May 13, 1997, London
By: Citibank, N.A. (Corporate Agency and Trust), Agent Bank
CITIBANK

SALOMON INC
Notice of Redemption
US$5,000,000
Euro Medium Term Notes due 16th June 1998
(Common Code: 5815134, ISIN Code XS0058151340)

Notice is hereby given, in accordance with the Prospectus Supplement dated October 12, 1994 relating to the above mentioned notes, that the issuer intends to redeem all the Notes on the Optional Redemption Date: June 16, 1997 at a price of 100% of principal plus accrued and unpaid interest to but not including the redemption date of June 16, 1997.

May 13, 1997, London
By: Citibank, N.A. (Corporate Agency and Trust), Agent Bank
CITIBANK

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Melanie Miles on
Tel: +44 0171 873 3349
Fax: +44 0171 873 3064

COMMODITIES AND AGRICULTURE

Wheat futures fall on USDA report

MARKETS REPORT

By Laurie Morse in Chicago and Susanna Voyle in London

Wheat futures prices in Chicago tumbled yesterday after the US Department of Agriculture raised its projection for this year's worldwide wheat production, while cutting its estimate for this year's US winter wheat harvest only slightly.

"The USDA not only raised world production, but raised production estimates for countries that are usually importers," said Mr Jerry Gidel, grain market analyst for Dean Witter Reynolds in Chicago. "That put a little bit of a damper on the market."

In its monthly report USDA forecast world wheat production for the current marketing year at 115m tonnes, up from 109m last year.

While it said crops in Argentina and Australia would be smaller, the adjustments were more than offset by forecasts of bigger crops in importing countries such as China. US winter wheat production was pegged at 1.56bn bushels, reflecting a reduction in southern states hit by frost last month.

Wheat futures prices for July at the Chicago Board of Trade fell as much as 10 cents a bushel after the report, and were trading 8 cents lower at $4.05 at midday.

Aluminium prices on the London Metal Exchange rose in spite of a report from the International Primary Aluminium Institute which highlighted an increase in stocks. Traders said that increase was balanced by a reported drop of 2,600 tonnes in LME stocks.

The IPAI data showed total stocks of all forms of aluminium at western world smelters, excluding finished end-products, rose to 3.096m tonnes at the end of March.

Comparisons are difficult as Chinese stocks were left out after their inclusion in January sparked complaints from analysts. The IPAI reported stocks of 3.077m tonnes in February and 3.596m in March last year.

"This just highlights the confusion," said Mr Angus MacMillan of Billiton Metals. "The data will remain tainted as long as they report the January and February data with the Chinese figures."

The price for three-month aluminium finished yesterday at $1,670 a tonne, a gain of $8, with traders predicting further rises later in the week.

Meanwhile, copper prices moved higher, fuelled by widespread buying and a tight market. Three-month copper peaked at $2,415 a tonne, ending afternoon "kerb" trading at $2,409, a gain of $19.

A fall of 1,750 tonnes in LME stocks – the first fall in about a week – helped support the metal. "Everything's looking very positive," said Mr William Adams of broker Rudolf Wolff. He added that the market was emboldened after funds showed confidence by borrowing to roll over large positions last week. The rest of the metals failed to follow in copper's wake.

● The stocks data from the London Metal Exchange now appears daily in the prices section of the commodities page.

Grain marketing reform under fire

Legislation designed to give western Canada's grain growers more control in selling their products has heightened the controversy over the government's monopolistic marketing agency. Some farmers are decrying federal intervention while others worry that changes could soon lead to an open market.

The legislation, now before parliament, will transform the Canadian Wheat Board from a crown corporation into a "mixed enterprise", giving wheat and barley growers the power to elect a majority of the agency's directors. The federal government currently appoints board commissioners and allows farmers only advisory status.

The reforms are designed to give farmers more control over their livelihood, but wheat board opponents argue that the proposals do not go far enough. Mr Larry Maguire, a leader of the anti-board faction, wants the legislation to include a dual-marketing clause, allowing producers to opt out of the wheat board and sell their grain individually.

CWB supporters, however, are adamantly opposed to a dual marketing system, arguing that it would weaken the board's clout and in effect put an end to the board itself. The wheat board, by law, is the sole exporter of Canadian wheat and barley and the only marketer of domestically-sold wheat and barley for human consumption. The CWB sold 22m tonnes of grain worth C$5.8bn (US$4.17bn) during the 1995-96 growing cycle.

The board pools grain and sells it collectively, distributing profits to farmers based on their contributions to the total. It also serves as a hedging instrument in the event that market prices fall below expectations – as happened in 1990-91, when the federal government provided almost C$750m to cover the board's obligations to farmers.

Supporters also argue that the board is a cost-effective vehicle for international sales, which account for about 80 per cent of Canada's wheat production. The monopoly "gives the wheat board some muscle," says Mr Bob Roehle, CWB spokesman. "If you take the monopoly away, there would be no compelling reason to have a wheat board."

The reforms before parliament will also streamline operational procedures, allowing the board to respond more quickly to changing market conditions.

"We've given the board new [marketing] tools, but the farmers are going to assume the financial risk," says Mr Howard Migie, a Canadian agriculture official who was involved in preparing the legislation, now in its second reading before the House of Commons.

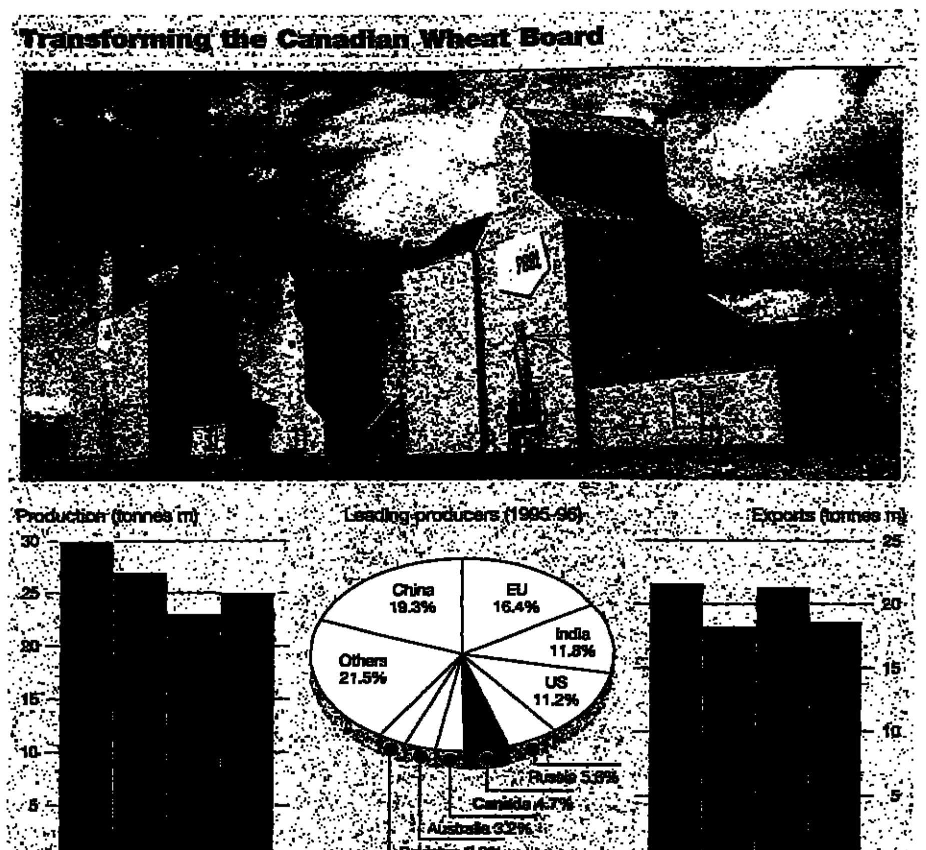
But Mr Maguire says technological advances have provided producers with more efficient means to market their goods at higher prices. He proposes farmers be given the option to sell individually or sign four-year contracts with the board, with any shortfall in supply being compensated for on the open market.

The number of anti-wheat board producers appears to be growing, although they remain a minority. In a recent plebiscite, 63 per cent of prairie barley producers said they wanted the CWB to remain as the sole marketer of barley outside the country. Mr Maguire, however, argues that the results indicate that a sizeable number of farmers are turning against the board.

There do not appear to be clear divisions between larger producers and small farmers when it comes to the wheat board. While the potential for greater economic gain influences some opponents, disagreement among producers also seems to be ideologically based.

The federal government seems unlikely to include a dual-marketing clause in the current legislation, but it may just be a matter of time before the anti-wheat board faction grows strong enough to force authorities to dispense with the CWB's marketing monopoly.

Scott Morrison



COMMODITIES NEWS DIGEST

LBMA clears less gold during April

Another fall in the average daily clearing turnover for gold was reported by the London Bullion Market Association yesterday. Daily turnover was 32.1m troy ounces worth $11.1bn, well down on the 36.3m troy ounces worth $13.8bn cleared in March and the record 40.3m ounces worth $14bn reported in February.

The association also pointed out that April's volume total was 15 per cent below the average for the first quarter and 16.5 per cent down in value terms. "Underlying these trends was the levelling out of both gold and silver prices in April and consequently lower volatility which was naturally reflected in a generally declining level of activity and clearing turnover," said Mr Chris Elston, chief executive. Gold averaged $344.47 an ounce in April, compared with $351.80 in March.

The LBMA started reporting daily clearance statistics for London, the international settlement centre for gold bullion, only from October last year, so there are no comparative figures for April 1996.

The picture for silver in April was similar to that for gold, with 253m ounces worth $1.2bn cleared on average every day, down from 284m ounces worth $1.5bn in March. The average silver price in April fell to $4.77 an ounce from $5.20 in March.

Kenneth Gooding

Russia moves on palladium

Russian officials yesterday said that exports of palladium to Japan could start by the end of this month. The news came after the Russian government said that it had signed a decree outlining platinum group metal (PGM) export quotas for 1997. The announcement, by Mr Vladimir Rybkin, head of the precious metals department at the Finance Ministry, confirmed reports last week that industry officials thought the decree was signed.

Mr Rybkin said that he did not know when long-delayed talks with Japanese buyers would begin. Russia is the biggest producer of palladium, essential in some automotive catalysts and electronic equipment components, yet it has exported virtually none this year so far. This has left some organisations in Japan, the biggest consumer, struggling to cope.

The US branch of Almazjuvelirexport (Almaz), the PGM export agents, said that shipments from Russia to Japan should start in late May or early June. Platinum prices in London yesterday were "fixed" at $396.25 a troy ounce, the highest since February 28. Palladium also rose, fixing at $171.75 an ounce, the highest in more than two years.

Susanna Voyle

Wapet sells gas pipeline

The West Australian Petroleum (Wapet) consortium has sold the 420km West Australian Natural Gas pipeline, together with petroleum assets in the Perth basin, to CMS Energy, the US-based group. No price was disclosed. Wapet – whose joint venture partners include Chevron, Texaco, Mobil and Shell – announced last year its intention to sell the Perth basin assets and the pipeline, which is capable of transporting natural gas from the North Perth basin to Pinjarra. It said at the time that the disposal would allow it to focus on larger projects.

Nikki Tait, Sydney

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1651.5-52.5	1675-76
Previous	1643.5-4.5	1664-5
High/low		1678/1667
AM Official	1642-42.5	1667.5-8.0
Kerb close		1669-70
Open int.	276,677	
Total daily turnover	74,729	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1500-05	1525-30
Previous	1485-95	1510-20
High/low		1525/1520
AM Official	1490-95	1510-15
Kerb close		1520-30
Open int.	5,763	
Total daily turnover	1,197	

■ LEAD ($ per tonne)

Close	615-6	625-6
Previous	610-11	621.5-2.5
High/low		630/620
AM Official	610.5-11.0	622-3
Kerb close		629-30
Open int.	38,096	
Total daily turnover	6,959	

■ NICKEL ($ per tonne)

Close	7755-65	7860-70
Previous	7730-40	7830-35
High/low		7950/7810
AM Official	7740-41	7845-50
Kerb close		7835-40
Open int.	48,603	
Total daily turnover	16,584	

■ TIN ($ per tonne)

Close	5825-35	5870-80
Previous	5855-65	5895-905
High/low		5900/5870
AM Official	5840-45	5880-85
Kerb close		5860-70
Open int.	16,248	
Total daily turnover	3,917	

■ ZINC, special high grade ($ per tonne)

Close	1314-15	1333-34
Previous	1313.5-4.5	1333-34
High/low		1341/1326
AM Official	1309-10	1329.5-30.0
Kerb close		1335-37
Open int.	90,674	
Total daily turnover	23,611	

■ COPPER, grade A ($ per tonne)

Close	2478.5-80.5	2414-15
Previous	2439-41	2388-9
High/low	2466	2415/2392
AM Official	2464-66	2401-2
Kerb close		2388-89
Open int.	135,595	
Total daily turnover	48,858	

■ LME AM Official £/$ rate: 1.6179
LME Closing £/$ rate: 1.6255

Spot: 1.6237 3 mths: 1.6213 6 mths: 1.6189 9 mths: 1.6167

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	113.80	+1.60	113.80	112.20	942	3,312
Jun	113.50	+1.50	113.50	112.30	159	2,825
Jul	113.10	+1.50	113.40	111.50	3,964	26,149
Aug	110.70	+1.10	110.70	110.10	16	1,429
Sep	109.25	+1.05	109.30	108.50	400	5,417
Oct	107.90	+0.90	107.40	107.00	11	1,011
Total					5,504	52,796

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	349.80-350.30		
Opening	348.70-349.00		
Morning fix	348.20	214.67	496.08
Afternoon fix	348.20	215.11	498.87
Day's High	350.80-351.10		
Day's Low	347.10-347.40		
Previous close	345.65-346.15		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....4.85 6 months 4.81
2 months ....4.83 12 months 4.74
3 months 4.82

Silver Fix	p/troy oz.	US cts equiv.
Spot	300.65	485.00
3 months	304.85	492.10
6 months	309.20	498.40
1 year	318.45	511.85

Gold Coins	$ price	£ equiv.
Krugerrand	348-350	214-215
Maple Leaf	-	-
New Sovereign	81-84	50-52

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	347.7	-0.6	-	-	1	-
Jun	348.7	-0.6	352.2	348.2	36,724	71,389
Aug	351.5	-0.6	355.0	351.0	2,042	19,041
Oct	354.2	-0.6	357.0	354.6	733	6,533
Dec	357.0	-0.6	360.7	356.7	416	21,701
Feb	359.8	-0.6	-	-	6	4,691
Total					39,981	163,358

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	391.1	+1.7	397.5	389.4	5,413	13,183
Oct	392.1	+1.7	398.0	390.4	688	3,415
Jan	394.3	+1.7	400.0	398.0	2	1,178
Apr	396.8	+1.7	-	-	-	14
Total					6,103	17,790

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	171.85	+7.95	172.90	166.00	1,338	6,245
Sep	169.35	+8.20	171.00	163.00	526	2,955
Dec	169.35	+8.20	-	-	-	376
Total					1,864	9,680

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

May	479.8	-4.5	489.0	480.5	52	150
Jul	483.5	-4.5	493.0	483.0	15,613	56,322
Sep	488.4	-4.5	497.0	488.0	185	5,473
Dec	495.8	-4.5	505.0	495.0	148	7,445
Jan	498.1	-4.5	-	-	1	17
Mar	503.5	-4.5	511.5	505.0	6	7,341
Total					16,005	85,071

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	21.33	+0.90	21.35	20.48	48,470	84,778
Jul	21.17	+0.76	21.20	20.41	28,713	63,486
Aug	20.99	+0.68	21.02	20.43	8,876	32,458
Sep	20.85	+0.61	20.85	20.50	2,682	19,231
Oct	20.73	+0.55	20.75	20.55	2,030	15,701
Nov	20.62	+0.48	20.63	20.40	1,051	14,451
Total					99,805	369,971

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	19.56	+0.63	19.61	19.00	12,290	29,911
Jul	19.38	+0.62	19.45	18.88	16,359	77,079
Aug	19.35	+0.59	19.39	18.92	4,725	22,670
Sep	19.27	+0.49	19.34	18.90	861	12,068
Oct	19.27	+0.46	19.27	18.97	196	7,206
Nov	19.27	+0.45	19.27	18.94	67	5,817
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	56.40	+1.88	56.60	54.55	10,511	34,971
Jul	56.45	+1.75	56.55	54.55	5,765	29,474
Aug	56.60	+1.50	56.80	55.40	2,286	14,733
Sep	57.15	+1.35	57.15	56.20	583	9,358
Oct	57.90	+1.40	57.90	56.60	272	8,230
Nov	58.25	+1.00	58.50	57.75	170	7,436
Total					20,629	138,973

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	170.75	-	172.00	171.00	7,101	5,921
Jun	173.75	+6.25	174.00	168.50	12,438	26,517
Jul	174.25	+5.75	174.75	169.75	2,963	8,336
Aug	175.50	+5.25	175.50	171.75	150	7,466
Sep	177.00	+5.00	176.50	175.75	98	3,182
Oct	178.75	+4.75	178.75	177.25	188	3,874
Total					29,589	69,794

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.240	-0.002	2.260	2.206	21,431	39,202
Jul	2.240	-0.007	2.260	2.210	10,529	29,180
Aug	2.240	-0.003	2.260	2.210	3,049	19,110
Sep	2.220	-0.013	2.230	2.210	1,126	15,867
Oct	2.225	-0.015	2.235	2.210	1,601	17,566
Nov	2.315	-0.020	2.325	2.315	1,113	7,866
Total					43,442	269,662

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	64.75	+1.86	64.90	62.85	14,662	44,926
Jul	63.45	+1.70	63.60	62.00	6,044	22,920
Aug	62.00	+1.73	62.00	61.15	1,821	9,607
Sep	60.60	+1.40	60.70	60.00	404	3,698
Oct	57.75	+0.55	-	-	230	2,785
Nov	56.90	+0.40	-	-	88	1,726
Total					23,329	93,317

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	91.25	-1.40	91.00	91.00	20	279
Jul	93.25	-1.50	94.75	93.25	118	2,098
Sep	94.25	-1.75	94.25	94.25	10	80
Nov	96.25	-1.75	98.25	96.25	295	3,486
Jan	98.25	-1.75	98.50	98.25	23	1,419
Mar	100.25	-1.75	101.50	100.25	40	690
Total					551	8,282

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	393.00	-12	400.00	388.00	40	259
Jul	399.00	-14.75	415.00	397.00	8,770	55,738
Sep	405.50	-14	419.50	404.00	1,339	12,855
Dec	416.75	-13.5	430.25	414.00	1,789	16,429
Mar	419.00	-12.5	425.50	417.00	1,789	16,429
May	395.00	-11	-	-	-	16
Total					11,995	86,683

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	288.25	-3.75	293.00	288.00	1,846	8,592
Jul	283.00	-5.00	289.50	282.75	28,442	127,774
Sep	268.25	-4.75	274.75	268.25	3,011	26,515
Dec	267.25	-4.50	273.50	267.00	12,483	108,584
Mar	273.00	-4.00	278.25	272.50	179	11,674
May	277.00	-4.00	280.00	277.00	102	1,144
Total					44,180	289,957

■ BARLEY LIFFE (100 tonnes; £ per tonne)

May	90.50	-1.00	-	-	-	57
Sep	91.25	-0.25	-	-	-	28
Nov	93.25	-0.25	93.75	93.25	65	897
Jan	95.25	-0.25	95.50	95.50	12	121
Mar	97.25	-0.25	-	-	-	-
May	99.25	-0.25	-	-	-	-
Total					77	1,103

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	874.50	-19.75	900.00	874.00	1,659	3,674
Jul	868.50	-20.5	896.00	867.50	26,066	104,414
Aug	842.75	-17.25	866.00	841.25	3,722	19,777
Sep	752.75	-11	768.50	752.50	727	8,910
Nov	704.50	-6	714.00	704.00	7,414	47,420
Jan	710.50	-5.25	718.50	710.50	356	3,320
Total					40,806	189,122

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	24.08	-0.36	24.40	24.04	465	873
Jul	24.27	-0.43	24.73	24.25	7,950	50,423
Aug	24.42	-0.44	24.80	24.40	1,408	13,484
Sep	24.55	-0.43	24.90	24.55	669	8,096
Oct	24.65	-0.36	24.90	24.65	189	8,150
Dec	24.88	-0.34	25.20	24.85	1,251	16,226
Total					12,004	100,123

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	298.0	-6.6	308.5	298.0	5,552	8,126
Jul	285.8	-8.5	297.8	285.5	14,748	54,340
Aug	272.5	-8.2	283.8	272.0	3,283	16,480
Sep	254.3	-5.4	262.5	254.0	927	9,274
Oct	233.8	-3.5	238.5	233.5	568	9,682
Dec	224.0	-3.9	229.5	224.0	2,279	18,394
Total					27,804	119,391

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Jan	30.0	-	-	-	-	-
Nov	57.5	-0.5	-	-	-	11
Mar	106.0	-	-	-	-	-
Apr	115.5	-0.5	115.5	110.0	117	1,169
May	124.0	-	-	-	-	-
Total					117	1,180

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

May	1330	-	1330	1325	12	608
Jun	1295	-	1300	1295	13	318
Jul	1210	-	1210	1210	5	1,073
Oct	1340	+5	-	-	-	479
Jan	1350	+5	-	-	-	57
Apr	1385	+5	-	-	-	-
Total					30	2,535

	Close	Prev
BFI	1279	1275

FUTURES DATA
All futures data supplied by CMS.

Tea
There was good demand for tea, The Tea Brokers' Association reports. Landed bright liquoring East Africans advanced 3 pence to 5 pence. Coloury mediums were fully firm to dearer but plainer central Africans were easier where sold. Offshore strong competition at lest levels. Quotations for this sale: Landed best available 181p; good 170p; good medium 157p; medium 150p; low medium 100p (nom). The highest price realised this week was 181p for a Kenya PF1.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1000	+12	999	997	8	105
Jul	1016	+5	1019	1013	848	30,552
Sep	1033	+6	1033	1030	145	14,259
Dec	1028	+8	1030	1023	490	29,003
Mar	1037	+7	1039	1033	235	30,355
May	1047	+7	1050	1048	45	14,829
Total					2,308	137,815

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1419	-11	1435	1426	30	66
Jul	1429	-11	1445	1428	3,359	31,268
Sep	1457	-10	1470	1456	437	13,421
Dec	1485	-9	1494	1485	217	17,966
Mar	1514	-8	1519	1514	128	20,354
May	1534	-8	1535	1532	177	8,578
Total					4,426	93,780

■ COCOA (ICCO) (SDR's/tonne)

May 9	Price	Prev. day
Daily	1126.94	1123.29

■ COFFEE LIFFE (5 tonnes; $/tonne)

May	1720	+23	1720	1680	59	948
Jul	1775	+18	1781	1732	1,875	25,521
Sep	1795	+24	1800	1751	1,317	13,152
Nov	1797	+27	1800	1759	440	5,113
Jan	1774	+34	1787	1739	184	1,960
Mar	1754	+34	-	-	-	260
Total					3,875	46,957

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	245.65	+6.65	247.00	239.00	89	454
Jul	229.65	+11.75	230.25	218.70	3,940	14,974
Sep	204.45	+8.90	205.00	195.50	1,170	6,944
Dec	179.75	+6.00	179.75	174.00	584	4,692
Mar	166.50	+5.50	166.50	161.50	90	1,888
May	158.50	+4.95	158.50	155.00	24	290
Total					5,897	29,413

■ COFFEE (ICO) (US cents/pound)

May 9		Prev. day
Comp. daily	163.88	164.64
15 day average	155.60	154.62

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	316.6	+3.3	317.0	313.5	1,600	12,035
Oct	306.2	+3.2	305.7	303.6	166	5,893
Dec	303.6	+2.2	303.2	301.9	210	1,693
Mar	302.9	+1.3	303.0	300.9	206	1,596
May	302.3	+1.0	302.4	302.3	6	678
Aug	302.9	-0.1	303.0	301.8	20	183
Total					2,254	22,148

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.04	+0.16	11.08	10.89	6,460	74,636
Oct	10.87	+0.17	10.89	10.72	964	39,562
Mar	10.74	+0.13	10.75	10.63	1,036	23,816
May	10.67	+0.11	10.69	10.58	238	5,630
Jul	10.61	+0.10	10.60	10.53	48	2,679
Oct	10.54	+0.09	10.50	10.50	23	562
Total					8,829	147,230

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	72.65	+0.67	73.35	72.00	3,769	40,250
Oct	73.95	+0.52	74.30	73.30	543	3,243
Dec	74.67	+0.35	75.25	74.22	1,751	24,812
Mar	75.85	+0.25	76.30	75.50	556	3,609
May	76.55	+0.25	-	-	76	913
Jul	76.95	+0.25	77.00	77.00	-	316
Total					8,983	74,589

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	82.20	+6.80	82.30	74.90	1,839	17,832
Sep	83.00	+5.00	83.00	77.50	148	6,379
Nov	85.75	+5.00	85.75	80.50	150	3,149
Jan	88.50	+5.00	88.00	83.00	46	1,397
Mar	91.00	+5.00	91.00	87.50	121	823
May	93.50	+5.00	93.50	93.50	4	215
Total					2,388	30,270

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 12	May 9	month ago	year ago
1972.6	1970.8	1948.8	2137.6

■ CRB Futures (Base: 1967 = 100)

May 9	May 8	month ago	year ago
249.53	248.08		

■ GSCI Spot (Base: 1970 = 100)

May 9	May 8	month ago	year ago
197.81	197.30	187.62	209.93

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,600	to	775,750
Aluminium alloy	-480	to	84,180
Copper	-1,750	to	151,600
Lead	+275	to	116,575
Nickel	+156	to	50,484
Zinc	-375	to	428,675

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	66.050	-0.050	66.425	65.900	12,124	34,151
Aug	66.300	-0.075	66.600	66.225	6,576	31,580
Oct	69.350	-0.125	69.625	69.250	2,089	16,349
Dec	70.975	-0.200	71.250	70.875	941	9,146
Feb	71.175	-0.250	71.500	71.150	695	5,112
Apr	73.050	-0.050	73.100	72.875	57	1,526
Total					22,482	97,866

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Jun	84.675	-0.325	85.775	84.450	3,785	16,351
Jul	85.650	-0.475	86.725	85.375	3,067	8,169
Aug	83.075	-0.475	83.950	83.000	2,124	7,493
Oct	75.775	-0.300	76.375	75.450	442	5,433
Dec	72.975	+0.050	73.500	72.550	281	3,461
Feb	71.250	+0.075	71.650	70.900	96	1,271
Total					9,825	43,190

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	87.400	-1.500	88.750	87.050	104	448
Jul	88.425	-1.675	90.600	88.275	1,913	6,893
Aug	87.875	-1.425	90.200	87.750	276	1,654
Feb	74.825	-0.175	76.850	74.550	15	334
Mar	74.050	-0.350	-	74.050	1	9
Total					2,398	9,344

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1650	36	72	22	47
1675	24	60	34	58
1700	15	49	50	72
■ COPPER (Grade A) LME	**Jun**	**Sep**	**Jun**	**Sep**
2350	118	91	9	76
2400	79	68	20	103
2450	48	50	38	133
■ COFFEE LIFFE	**Jul**	**Sep**	**Jul**	**Sep**
1700	130	195	55	100
1750	101	168	76	123
1800	78	144	103	149
■ COCOA LIFFE	**Jul**	**Sep**	**Jul**	**Sep**
1000	43	78	27	45
1025	30	64	39	56
1050	21	53	55	70
■ BRENT CRUDE IPE	**Jun**	**Jul**	**Jun**	**Jul**
1900	14	63	6	41
1950	-	53	-	-
2000	-	37	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$18.46-8.61	+0.345
Brent Blend (dated)	$19.43-9.45	+0.80
Brent Blend (Jun)	$19.58-9.60	+0.80
W.T.I.	$21.25-1.27z	+0.82

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$209-211	+3
Gas Oil	$178-179	+6.5
Heavy Fuel Oil	$80-82	+2
Naphtha	$176-178	+3
Jet fuel	$192-193	+5.5
Diesel	$184-186	+6

■ NATURAL GAS (Pence/therm)

Bacton (May)	11.4-11.5	+0.35

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jun)	11.270	+0.270

■ OTHER

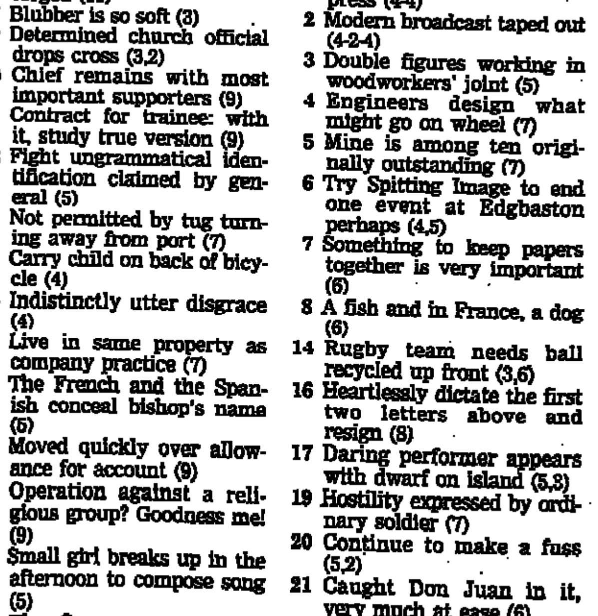
Gold (per troy oz)♣	$350.05	+4.15
Silver (per troy oz)♣	491.00c	+3.00
Platinum (per troy oz.)	$391.00	+7.5
Palladium (per troy oz.)	$169.25	+4.75
Copper	118.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.40r	-0.03
Tin (New York)	275.5	
Cattle (live weight)	99.53p	+1.02*
Sheep (live weight)	146.51p	+8.04*
Pigs (live weight)†	107.11p	-3.79*
Lon. day sugar (raw)	$271.70	+1.10
Lon. day sugar (wte)	$318.00	+1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	70.50p	+1.00
Rubber (Jul)♥	70.50p	+1.00
Rubber (KL RSS No1)	270.5x	-2.00
Coconut Oil (Phil)§	682.5y	-2.5
Palm Oil (Malay.)§	560.0z	-2.5
Copra (Phil)§	$435.0y	
Soyabeans (US)	229.0	+1.0
Cotton Outlook'A' index	78.95c	
Wooltops (64s Super)	410p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w May y May/Jun♥ z Jun London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 2,321 head of pigs

JOTTER PAD

CROSSWORD

No.9,373 Set by HIGHLANDER



ACROSS
1 Ward off iron before it's forged (11)
7 Blubber is so soft (3)
9 Determined church official drops cross (3,2)
10 Chief remains with most important supporters (9)
11 Contract for trainee: with it, study true version (9)
12 Fight ungrammatical identification claimed by general (5)
13 Not permitted by tug turning away from port (7)
15 Carry child on back of bicycle (4)
18 Indistinctly utter disgrace (4)
20 Live in same property as company practice (7)
23 The French and the Spanish conceal bishop's name (5)
24 Moved quickly over allowance for account (9)
26 Operation against a religious group? Goodness me! (9)
27 Small girl breaks up in the afternoon to compose song (5)
28 The German goes round looking embarrassed (3)
29 Tidy up faultless jump first (6,5)

DOWN
1 Certain actors pursued by press (4-4)
2 Modern broadcast taped out (4-2-4)
3 Double figures working in woodworkers' joint (5)
4 Engineers design what might go on wheel (7)
5 Mine is among ten originally outstanding (7)
6 Try Spitting Image to end one event at Edgbaston perhaps (4,5)
7 Something to keep papers together is very important (6)
8 A fish and in France, a dog (6)
14 Rugby team needs ball recycled up front (3,6)
16 Heartlessly dictate the first two letters above and resign (8)
17 Daring performer appears with dwarf on island (5,3)
19 Hostility expressed by ordinary soldier (7)
20 Continue to make a fuss (5,2)
21 Caught Don Juan in it, very much at ease (6)
22 Was very rude to us in middle of garden feature (6)
25 Jelly with a flavour (but not English) (5)

Solution to Saturday's prize puzzle on Saturday May 24.
Solution to yesterday's prize puzzle on Monday May 26.

هكذا من الأصل

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LUXEMBOURG (SIB RECOGNISED)

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
ABN AMRO Funds (u)						
4 Rue Jean Monnet, L-2180 Luxembourg 352 424948535						
Latin America Equity			$93.18	64.18	—	-
North America Equity			$92.43	92.69	—	-
Asian Tigers Equity			$94.00	94.64	—	-
Europe Equity			$86.70	87.13	—	-
Germany Equity			DM178.90	179.78	—	-
Japan Equity			$47.82	48.10	—	-
Europe Bond			$63.64	63.80	—	-
US Bond			$59.86	60.00	—	-
Global Bond			$62.40	62.56	—	-
Germany Bond B			DM112.48	112.74	—	-
Spain Bond			Pta10858	10885	—	-
Eastern Europe Equity F			DM228.59	228.24	—	-
China Equity F			$73.85	74.77	—	-
Switzerland Equity			SFr159.00	159.48	—	-
Abtrust Fund Mngrs Luxembourg SA (u)						
4 Boulevard Royal L 2449 Luxembourg 00 352 227001						
Abtrust Atlas Fund						
Global Cap Portfolio			$4.059		+0.018	-
United States Portfolio			$5.139		+0.049	-
Cont Europe Portfolio		0	DM7.883		-0.002	-
Japan Portfolio			$3.614		+0.010	-
Pacific Portfolio			$6.398		+0.024	-
Gold Portfolio			$5.789		+0.161	-
UK Growth of Income			£2.372		—	3.61
Dollar Portfolio			$1.858		+0.002	7.03
Sterling Portfolio			£1.043		+0.001	6.30
Aetna Master Fund (u) (z)						
21 avenue de la Liberte, L-1931, Lux 00 352 2854 941						
Australasian NAV			A$18.16		+0.02	-
Austrian Net NAV			Sch509.38		+0.38	-
BelgoLux NAV			BFr945.39		+2.83	-
Dutch Net NAV			Dfl50.47		+0.22	-
French Net NAV			FFr148.90		-0.79	-
German Net NAV			DM22.17		—	-
Hongkong Net NAV			HK$138.32		+0.39	-
Italian Net NAV			L13029		+11	-
Japanese Net NAV			Y1253		+4	-
Spanish Net NAV			Pta1661		+20	-
UK Net NAV			£11.59		+0.11	-
United States Dllr Res			$11.18		—	-

Prices quoted are "A" shares

American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 404646211

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Fidelity Funds - Contd.						
Bond Funds						
European			Ecu11.64		-0.01	6.05
International			$1.032		+0.012	6.42
US Dollar			$5.661		—	6.04
Sterling			£3.259		+0.001	7.21
Balanced						
European Balanced			DM15.06		-0.01	1.62

Prices as at May 9

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Fleming Group (u)						
6 Route De Treves L-2633 Senningerberg Luxembourg						
00 352 34101 or 0800 080 284						
Fleming Flagship Fund (daily dealing)						
FFF American			$38.72	63.18	+0.14	-
FFF Amer Fledgling F			$62.84	66.49	+0.26	-
FFF Asian Smaller Cos F			$10.13	10.72	+0.02	-
FFF China			$19.51	20.64	-0.03	-
FFF Continental Europe F			DM45.61	48.25	+0.18	-
FFF DM Balanced F		5	DM11.78	12.47	-0.02	-
FFF DM Bond		3	DM11.29	11.70	+0.01	-
FFF Eastern European F			DM30.77	32.56	+0.32	-
FFF Eastern Opps			$22.68	24.00	—	-
FFF Emerging Markets F			$10.63	11.26	+0.02	-
FFF Emerging Markets Debt F			$14.89	15.75	+0.06	-
FFF European			DM45.41	48.04	-0.15	-
FFF European Smlr Cos F			DM26.85	28.40	+0.13	-
FFF Global Conv F			$18.28	19.34	+0.05	-
FFF India II			$10.31	10.91	+0.05	-
FFF Intl Bond F			$13.73	14.52	+0.15	-
FFF Intl Equity F			DM63.39	68.44	-0.39	-
FFF Japanese			$15.82	16.73	+0.57	-
FFF Japanese Smaller Cos F			$8.18	8.54	+0.15	-
FFF Latin American			$14.02	14.84	+0.07	-
FFF Pacific			$23.09	24.43	+0.16	-
FFF Sterling Bond			£1.108	1.170	—	-
FFF UK Enterprise			£5.88	6.19	+0.04	-
FFF US Discovery			$42.88	44.93	-0.15	-
Fleming Flagship Series II (Daily Dealing)						
DM Class F			DM12.473		+0.001	2.67
FFr Class F			FFr64.454		+0.015	2.69
ITL Class F			L22311		+12	6.66
£ Class F			£5.263		+0.002	5.69
US$ Class F			$12.111		+0.005	5.36
Oasis Fund Sicav						
International Equity F	5	CE	$9.858	10.6167	—	-

Foreign & Colonial Emerging Markets Ltd (u)

Exchange Ho, Primrose St, Ldn, EC2A 2NY 0171-628 1234

F&C Emerging Markets

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Old Mutual International (Ireland) Ltd

PO Box 121, St Peter Port, Guernsey 01481 726726

	Selling Price	Buying Price	+ or -	Yield Gross
Emerging Markets Bond	$1.405	1.511	—	–
US$ Emerging Stockmarket	$0.946	1.017	—	–
US$ European Stockmarket	$1.286	1.383	—	–
DEM European Stockmarket	DM1.657	1.780	—	–
US$ Managed Currency	$0.930	1.000	—	–
DEM Managed Currency	DM0.980	1.055	—	–
Sterling Managed Currency	£0.930	1.000	—	–
US$ Intl Fixed Interest	$1.059	1.138	—	–
DEM Intl Fixed Interest	DM1.094	1.176	—	–
Sterling Intl Fixed Interest	£1.056	1.134	—	–
US$ Managed	$1.134	1.220	—	–
DEM Managed	DM1.251	1.345	—	–
Sterling Managed	£0.975	1.048	—	–
US$ Intl Stockmarket	$1.177	1.266	—	–
DEM Intl Stockmarket	DM1.252	1.346	—	–
Sterling Intl Stockmarket	£1.058	1.138	—	–
US$ Special Market	$0.831	0.894	—	–
DEM Special Market	DM0.974	1.048	—	–
Sterling Special Market	£0.868	0.933	—	–
Fidelity Managed International	£1.026	1.103	—	–
Fleming FF Eastern European	DM0.932	1.002	—	–
Perpetual UK Growth	£1.015	1.092	—	–
RE Investment	$0.935	1.006	—	–
Gartmore CSF Continental European	DM1.041	1.119	—	–
Gartmore CSF US Smaller Cos	$0.954	0.989	—	–
GT NICS	$0.869	0.936	—	–

Old Mutual International (Isle of Man) Ltd

Victory Hse, Prospect Hill, Douglas, IoM 01624 663665

	Selling Price	Buying Price	+ or -	Yield Gross
Distribution Fund–Deferred	83.87		+0.61	–
Distribution Fund–Quarterly	83.66		+0.39	5.44
Distribution Fund–Half Yearly	83.21		+0.38	5.84
European Equity	171.27	184.16	+2.07	–
Far Eastern Equity	$1.9584	2.1020	+0.0047	–
North American Equity	$1.6184	1.7409	+0.0039	–
UK Equity	193.55	208.11	+2.82	–
UK Gilt & Fixed Int	125.13	134.54	+0.28	–
Dollar Deposit	$0.7750	0.8332	+0.0002	–
Sterling Deposit	110.81	119.15	+0.02	–
International Managed	150.22	161.52	+1.05	–

PanEuroLife societe anonyme

36 Av Marie-Therese, Luxembourg 00 352 456780

	Selling Price	Buying Price	+ or -	Yield Gross
French Balanced May 7	FFr7780.37		+83.87	–
Structured Benefits May 7	DM5827.81		+61.82	–
Global Equities May 7	$1475.27		+58.75	–
UK Secure Gilt May 7	£781.30		+9.18	–
US Secure Growth May 7	$1208.86		+30.29	–
Intl Real Estate May 7	Ecu1720.23		+64.88	–
Fund of Funds May 7	Ecu1443.35		+42.60	–
[illegible] DEM Guaranteed 3.5%	DM1045.11		+0.88	–
[illegible] LUF Guaranteed 4%	LFr1053.15		+0.79	–
[illegible] USD Guaranteed 1.5%	$1048.48		+0.89	–
[illegible] FRF Guaranteed 3.5%	FFr1048.48		+0.89	–

Alnista Capital Management Ltd

Alnista Growth Fund and Unit Trust

	Selling Price	Buying Price	+ or -	Yield Gross
Class A	$100.83	103.95	—	–
Class B	$98.53	101.37	—	–

Alpha Fund Management Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Alpha Europe Mar 31	Ecu299.63		—	–
Alpha Futures Mar 31	$259.02		—	–
Alpha Global Mar 31	$1083.40		—	–
Alpha Allies Jan 31	$109.69		—	–
Alpha Allies Fd Ltd NYC Cl	$155.90		—	–
Alpha Allies Tech Class Mar 31	$122.73		—	–
Alpha Emer Mkt Debt Apr 30	$209.30		—	–
Alpha Hedge Class A Mar 31	$588.47		—	–
Alpha Hedge Class B Mar 31	$152.50		—	–
Alpha Hedge Class C Mar 31	$149.57		—	–
Alpha Latin Am Mar 31	$468.55		—	–
Alpha Pacific Mar 31	$351.82		—	–
Alpha Short Apr 30	$51.78		—	–
Alpha Tiltdale Apr 30	$324.37		—	–
[illegible] Mar 31	Ecu214.43		—	–
[illegible]	$128.39		—	–
Globalvest Value Mar 31	$193.53		—	–
Lattanzi Value Fd Ltd Mar 31	$156.78		—	–
Pacific Mkt Opp Mar 31	$95.76		—	–
The Rentals Fund Ltd Apr 30	$254.19		—	–
[illegible]	$131.88		—	–
[illegible]	$711.77		—	–
India Performance Mar 31	$96.43		—	–

Apex Bank & Trust Company

	Selling Price	Buying Price	+ or -	Yield Gross
GCM Intl Convertible (DEC)	$1799.82		—	–
GCM Intl Fixed Income (DEC)	$1143.54		—	–
GCM Intl Equity (DEC)	$128.18		—	–
GCM Intl High Yield			—	–

Aravis Capital Advisers LLC

	Selling Price	Buying Price	+ or -	Yield Gross
Aravis Clipper Ltd	$126.50		—	–

Arc Investment Company Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Rainbow	$671.27		—	–
Rainbow	SFr844.50		—	–

Arisaig Partners (BVI) Ltd

Arisaig Asian Small Companies Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV	$10.26		—	–

Arnhold and S. Bleichroeder, Inc

	Selling Price	Buying Price	+ or -	Yield Gross
Aetos Corporation–Class A	$12010.46		—	–
Aquila International Fd Ltd–Class A	$732.44		—	–
DEF Associates NV–Class A	$16390.74		—	–
Eagle Select Fund Ltd	$1047.19		—	–
First Eagle Fund NV–Class A	$28057.90		—	–
Global Sovereign–Class A	$123.66		—	–

Asia Pacific Capital Strategies Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV May 5	$8.0469		—	–

	Selling Price	Buying Price	+ or -	Yield Gross
GSAM Money Mkt US$	$101.76		+0.02	4.80
Do Sterling	£101.91		+0.01	5.38
Do Swiss Franc	SFr100.33		—	0.65
Do Deutschmark	DM100.74		+0.01	2.00
GAMSAM Omega Inc	$97.74		—	–
GSAM Oracle	$183.63		—	–
GAM Strategic				
Diversity Strategic A	138.31		—	–
Diversity Strategic B	136.15		—	–
European Strategic A	142.29		—	–
European Strategic B	138.39		—	–
Trading Strategic A	130.83		—	–
Trading Strategic B	128.32		—	–
Developing Mkts Strategic A	135.29		—	–
Developing Mkts Strategic B	138.14		—	–

	Selling Price	Buying Price	+ or -	Yield Gross
JF Japan OTC Tst	Y939	995	–6	–
JF Japan Small Co	Y35381	37431	+54	–
JF Japan Tech Tst	Y31207	33016	–414	–
JF Korea Trust	$7.79	8.25	+0.03	–
JF Malaysia Tst	$32.34	34.22	–0.13	–
JF New Zealand Tst	$19.48	20.60	–0.01	–
JF Pacific Inc Tst(z)	$14.92	15.80	+0.11	–
JF Pacific Smlr Cos Tst	$7.29	7.72	+0.02	–
JF Pacific Sec Tst(z)	$63.38	67.06	+0.02	–
JF Pakistan Trust	$3.43	3.64	–0.02	–
JF Philippine Tst	$93.90	99.35	–1.07	–
JF Taiwan Trust	$18.08	19.11	–0.11	–
JF Thailand Tst	$23.53	24.90	–0.26	–
JF India	$24.81	26.25	+0.23	–
JF Indonesia Trust	$11.44	12.11	+0.18	–

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Global Asset Management - Contd.

GAM Select

	Selling Price	Buying Price	+ or -	Yield Gross
Select Asean Class A	$97.44		—	–
Select Asean Class B	$95.31		—	–
Select European A	$123.08		—	–
Select European B	$115.91		—	–
Select Japan A	$119.96		—	–
Select Japan B	$123.05		—	–
Select Money Markets A	$101.58		+0.01	–
Select Money Markets B	$103.15		—	–
Select North America A	$110.82		—	–
Select North America B	$127.47		—	–
Select Pacific A	$110.34		—	–

Jardine Fleming Unit Trusts Ltd - Contd.

International Funds

	Selling Price	Buying Price	+ or -	Yield Gross
JF American Growth Tst	$31.54	33.38	+0.08	–
JF Continental Euro Tst	$4.74	5.03	+0.05	–
JF European Tst(z)	$20.84	22.08	+0.25	–
JF Germany Tst	DM15.04	15.92	+0.05	–
JF Global Bond & Currency Fd	$17.32	18.33	+0.04	7.2
JF Global Convertibles Tst	$14.73	15.60	+0.01	–
JF Global Securities Tst	$26.31	27.84	+0.21	–
JF International Bond	$10.34	10.72	+0.09	–
JF Managed Currency Fd	$15.42	16.33	—	–
JF Masterfund				
JF Asia Growth Ptflo	$8.49	8.89	–0.02	–

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES
[illegible]

BANKS, RETAIL
[illegible]

BREWERIES, PUBS & REST
[illegible]

BUILDING & CONSTRUCTION
[illegible]

BUILDING MATS. & MERCHANTS
[illegible]

CHEMICALS
[illegible]

CHEMICALS - Cont.
[illegible]

DISTRIBUTORS
[illegible]

DIVERSIFIED INDUSTRIALS
[illegible]

ELECTRICITY
[illegible]

ELECTRONIC & ELECTRICAL EQPT
[illegible]

ENGINEERING
[illegible]

ENGINEERING - Cont.
[illegible]

ENGINEERING - Cont.
[illegible]

ENGINEERING, VEHICLES
[illegible]

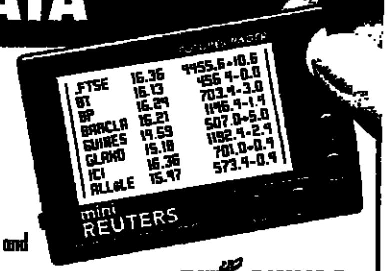
EXTRACTIVE INDUSTRIES
[illegible]

EXTRACTIVE INDUSTRIES - Cont.
[illegible]

FOOD PRODUCERS
[illegible]

GAS DISTRIBUTION
[illegible]

MINI REUTERS MAXIMUM DATA



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HOUSEHOLD GOODS
[illegible]

INSURANCE
[illegible]

INSURANCE - Cont.
[illegible]

INVESTMENT TRUSTS
[illegible]

INVESTMENT TRUSTS - Cont.
[illegible]

INV TRUSTS SPLIT CAPITAL
[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

The Financial Times plans to publish a Survey on
Private Health Insurance
on Thursday, May 22
For further information, please contact:
Derek van Tienen or Sally Beynon on
Tel: +44 1223 833 300 Fax: +44 1223 833 332
or your usual Financial Times representative
FT Surveys

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£25	----	*£31½	£20¼	1,815	3.0	ɸ
Barlow	♣	593	—	695	557	1,379	2.7	14.0
Gold Flds Prop R	†	128½	-½	171½	120	14.2	8.5	10.3
SA Brews		£18¼	+¼	224¼	£13¼	5,414	1.9	ɸ
Standard Bank		£28¼	-¼	£37¼	621	3,468	1.3	25.8
Tiger Oats		1052	-3	1150	770	1,582	1.7	20.6
Tongaat-Hulett		781½	-2½	1128	676¼	739.5	2.8	ɸ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ɸ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Post-election euphoria gathers momentum

MARKET REPORT

By Philip Coggan, Markets Editor

The GrandMet-Guinness merger, allied to another strong start on Wall Street, rescued what looked like being a dull day on the London stock market. The FTSE 100 index rose for the tenth straight trading session to record yet another all-time high of 4,669.6, up 38.7.

The market was caught by surprise by the £23.8bn merger – shares in both companies had dropped on Friday. But it rewarded both participants with sharp rises in share prices, which were responsible for around 19 points of Footsie's gain.

There were other knock-on effects for London stocks. The merged company plans to return £2.4bn in cash to shareholders, which investors may well reinvest in the market. And the announcement of a mega-merger sent investors scurrying to buy other potential takeover plays.

Furthermore, the merger "just shows that consolidation is taking place in the UK corporate sector and that will help earnings", said Mr Bob Semple, market strategist at NatWest Securities.

For a while, however, it looked as if the main effect of the deal would be to limit the London market's fall, as investors decided to take profits after the recent strong run. Bank shares were particular sufferers.

Sunday newspaper hints from Mr Gordon Brown, the chancellor, on plans to increase corporate taxation in the Budget also weighed on shares. At its worst, Footsie was down 8 at 4,622.9.

The rally really took hold in the afternoon when Wall Street opened strongly, buoyed by interest rate optimism and a rebound in technology stocks. The Dow was 72 points higher when the London market closed.

However, there were plenty of domestic supportive factors. The producer prices numbers showed that input prices (manufacturers' commodity costs) were down 10.5 per cent year-on-year. "Input prices were much lower than expected," said Mr Simon Briscoe, an economist at Nikko Europe. "These numbers will reduce worries that the Bank of England will tighten rates aggressively over the next few months."

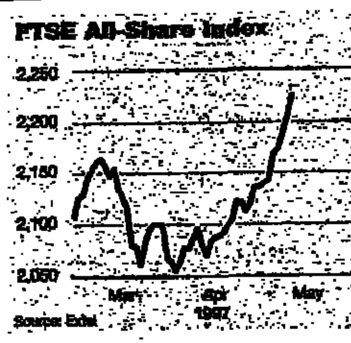
The prices data, together with soothing comments on inflation from Mr Eddie George, the governor of the Bank of England, created a supportive background for gilts. The benchmark 10-year issue rose by about a quarter of a point.

Gilt strength is one of the factors behind last week's decision by Lehman Brothers to raise its end-year Footsie forecast from 4,600 to 5,000. Mr Ian Scott, UK strategist, says equities are 6 per cent undervalued relative to gilts and he believes that the Bank of England's freedom to set interest rates will lead to further falls in gilt yields. "Inflation expectations have already dropped by 40 basis points," he said.

Reports indicated that Merrill Lynch became the third broker to raise its end-year forecast to 5,000 yesterday.

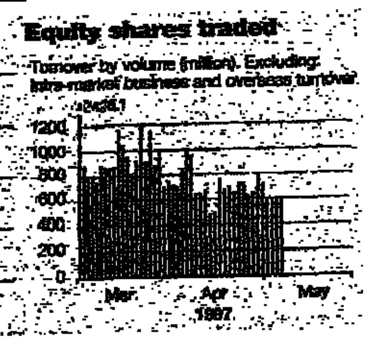
Volume was a respectable 762.8m shares at the 6pm count, of which around a tenth came in GrandMet and Guinness.

FTSE All-Share index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4669.6	+38.7	FT 30	3014.3	+54.0
FTSE 250	4526.4	+0.2	FTSE Non-Fins p/e	18.91	18.67
FTSE 350	2262.6	+15.1	FTSE 100 Fut Jun	4684.0	+33.0
FTSE All-Share	2222.19	+14.18	10 yr Gilt yield	6.99	7.06
FTSE All-Share yield	3.46	3.51	Long gilt/equity yld ratio	2.09	2.02

Best performing sectors

1 Alcoholic Beverages +13.1
2 Consumer Goods +2.7
3 Leisure & Hotels +1.7
4 Food Producers +1.6
5 Oil, Integrated +1.3

Worst performing sectors

1 Banks: Retail -0.7
2 Tobacco -0.6
3 Building Matls & Merch -0.6
4 Distributors -0.5
5 Paper, Pckg & Print -0.5

GMG deal lifts the spirits

By Joel Kibazo and Peter John

The spotlight was firmly on the drinks sector as the market took in the surprise announcement of a planned £23.8bn merger between Guinness and Grand Metropolitan.

Dealers piled into both stocks following the announcement, with the sharp advance accounting for almost half the Footsie's rise. Turnover of 75m in the two stocks represented around 10 per cent of the day's total market volume.

Buyers of both Grand Metropolitan and Guinness were attracted by the £2.4bn repayment to be made to shareholders, the improved interim figures from GrandMet and what one market specialist called the UK's "traditionally short term positive view on mergers".

Analysts said the link-up would face few regulatory hurdles. However, by the end of the session the sceptics appeared to be gaining ground.

Guinness, having touched a high of 615p eased back to close 86 or 16.7 per cent ahead at 602½p, the best performer in the FTSE 100. GrandMet touched 613p in frantic morning trading before easing to close 76½ or 14.9 per cent up at 591½p.

One analyst said: "The deal makes a lot of strategic sense but the cost savings and extra synergies will only result in a 7 per cent improvement in earnings per share in the second year after the merger."

Mr John Wakeley of Lehman Brothers, a bull of both stocks, was decidedly cool on the merger. He said: "We are losing our intense enthusiasm for these stocks as we don't see the rationale on upside for a merger. This business is not about portfolios of brands. It is about individual brands."

The proposed merger triggered another wave of bid speculation in several of the market's favourite bid targets.

Some of the talk settled on Cadbury-Schweppes, with Anglo-Dutch giant Unilever – which last week raised nearly £5bn from the sale of its speciality chemicals business to ICI – said to be the most likely predator. Cadbury advanced 23 to 552p on the speculation, while Unilever gained 32½ at £17.01p.

However, analysts remain sceptical about such a deal and one pointed out: "Unilever has always said it wants to re-invest the money it receives from disposals in emerging markets. Although Cadbury does operate in some of those markets, most of its profits come from developed markets."

The return of takeover talk at music publishing company EMI Group resulted in one of the day's sharpest rises. Dealers reported a big buyer of stock, a move that only served to increase the bid rumours, and the shares raced ahead 68 or 5.8 per cent to £12.69½p.

Shell Transport hit a new high because of the oil group's insulation from potential tax changes and a surge in oil prices.

HSBC James Capel reiterated its "buy" stance in the wake of comment about Labour possibly removing the advanced corporation tax credit on dividends.

The credit boosts dividends paid to pension funds by repaying them the implied tax rate of 20 per cent. However, as some of the Shell dividend benefit goes to Royal Dutch Shell, the effective benefit to Shell Transport is only 8 per cent.

Second, the price of oil continued to be strong with Brent crude for July rising 40 cents a barrel in London.

And third, internationally-traded stocks were at a premium as Wall Street hit new highs. Although not widely held in the US, Shell Transport shares tend to be pulled up by Royal Dutch which has almost half of its equity traded there. Shell Transport closed a net 21¼ higher at £11.41¼p.

BP also benefited but the shares were restrained by news of an earthquake in the Colombian province where the company has several sites. The shares, which went ex-dividend, ended 10¾ better at 739½p.

Banks received a setback as Goldman Sachs turned more cautious on the sector. Analyst Mr David Townshend moved his recommendation to "neutral" from "overweight" following last week's phenomenal rises.

HSBC fell 29 to £18.28½p in the Ordinaries and Standard Chartered 9 to £10.07½p.

Royal Bank of Scotland dropped 11¼ to 624p with Goldman arguing that the shares are "at the top of their fair value range".

The US broker is more keen on insurers. It raised its stance on Guardian Royal Exchange and Commercial Union from neutral to "market outperformer". GRE improved 2¼ to 310½p but CU was flat at 747½p.

Pearson, hard pressed in recent weeks as analysts became frustrated by the lack of news flow, bounced sharply after bullish comments by NatWest Securities at the morning meeting.

The broker believes the media conglomerate, which owns the Financial Times, is still on track to make disposals and has a sum of the parts value – disregarding any possible bid – of 825p a share. The shares moved forward 33 to 749½p.

ICI gained 15¼ to 787p with buyers responding to a change of heart from HSBC James Capel. The broker has upgraded from "sell" to "hold". Also, there have been reports that the company is interested in setting up a joint venture with several leading polyester manufacturers. Hoechst, Du Pont and Dow Chemical have been mentioned.

Hotels and leisure giant Ladbroke Group rose 12 to 254p following a positive trading statement at the company's annual meeting. Turnover was a busy 7.2m.

Ladbroke said profits for the first four months of this year were "significantly ahead" of the same period a year ago.

Kleinwort Benson yesterday reiterated its buy stance on the stock but is maintaining its current year profits estimate of £215m.

Sunderland fell 39 to 445p in response to the football club's relegation from the Premier League. Some analysts believe the slide could cost the club £3m in profits.

Last week's profits warning from industrial conglomerate BTR continued to exact a toll. A weekend press report also said institutional investors were calling for a radical shake-up in the company's management. BTR closed 11¼ down at 219p, the worst performer in the FTSE 100.

Tomkins hardened 2 to 274p, as NatWest Securities recommended the stock.

News of a profits warning at retailer Argos sent the group's shares down 24¼ to 632p.

However, a further decline in the stock was prevented by news that sales in the first 18 weeks were 12 per cent ahead of 1996.

FT 30 INDEX

	May 12	May 9	May 8	May 7	May 6	Yr ago	*High	*Low
FT 30	3014.3	2960.3	2947.0	2947.9	2932.9	2794.5	3014.3	2668.8
Ord. div. yield	3.64	3.71	3.73	3.76	3.75	3.98	4.22	3.75
P/E ratio net	18.25	17.87	17.77	17.67	17.68	16.42	18.09	15.80
P/E ratio nil	18.06	17.68	17.59	17.49	17.50	16.19	17.87	15.71

FT 30 since compilation: high 3014.3 09/05/97, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2986.1	2981.2	2979.0	2983.5	2988.8	2987.7	2991.9	2998.3	3007.4	3014.8	2977.8

	May 12	May 9	May 8	May 7	May 6	Yr ago
SEAQ bargains	63,069	59,647	47,166	53,124	53,681	34,710
Equity turnover (£m)†	–	NA	2332.2	2306.6	2553.3	1977.4
Equity bargains†	–	NA	41,513	47,808	56,127	37,877
Shares traded (ml)†	–	NA	683.8	600.8	721.8	649.5

†Excluding intra-market and overseas turnover but including Crest turnover.

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	906	Total Highs	171	Total contracts	1,040
Total Falls	693	Total Lows	62	Calls	655
Same	1,476			Puts	385

May 12 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4648.0	4684.0	+33.0	4690.0	4627.0	14790	88954
Sep	4672.0	4715.0	+31.0	4716.5	4668.0	319	3579
Dec	-	4759.0	+33.0	-	-	0	320

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4555.0	4555.0	+10.0	4555.0	4555.0	615	5446

FTSE 100 INDEX OPTION (LIFFE) (*4660) £10 per full index point

	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 288 Puts 54

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4475 C	4475 P	4525 C	4525 P	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 0 Puts 306 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	3,571	655	532½	Alliance & Leic	613½	-12½	L18.3	2.5	3.3	15.1
§	F.P.	111.6	1200	912½	Aston Villa	975	-20	R9.8	1.8	1.1	53.6
§100	F.P.	25.2	101	99	Aurora Inv Trust	101	+½	-	-	-	-
–	F.P.	4,267	308½	284	Cable & Wireless	286½		-	-	-	-
§40	F.P.	12.8	65	54½	†Charlton Athltc	57½		-	-	-	-
	F.P.	38.0	95	95	Close Bros Pr VCT	95		-	-	-	-
§130	F.P.	16.3	150½	132½	†Comino	147½		2.25	4.6	1.9	13.8
§	F.P.	12.6	83	70½	Donatantonio	83	+1½	0.5	ф	0.8	ф
–	F.P.	12.6	127½	122½	†Dragons Hlth Clbs	125½		-	-	-	23.7
§175	F.P.	25.9	212½	198	Heal's	212½		L3.9	3.1	2.3	15.5
§	F.P.	7.18	164½	160	†ITG	160	-2½	-	-	-	-
§110	F.P.	5.26	130½	122½	†Lady in Leisure	126½	-1	b-	-	-	-
§	F.P.	3.89	117½	112½	Longbridge Intl	117½		-	-	-	16.4
–	F.P.	178.4	99½	97½	Mrtn Currie I&G Inc	98		M7.4	-	9.4	-
–	F.P.	6.16	93½	87½	Do Cap	91½		-	-	-	-
50	F.P.	19.8	54½	47½	†NMT	50		-	-	-	-
§135	F.P.	176.2	144½	114	Newcastle Utd	123	+3½	u1.6	-	1.6	-
*	F.P.	1.74	29½	29½	†Northstar Secs	29		-	-	-	-
	F.P.	5.75	115	95	Oxford Tech Vent	115		-	-	-	-
–	F.P.	32.0	172½	157½	Partners Hldgs	171½		a-	-	-	19.8
100	F.P.	8.00	100	100	Penine AIM VCT	100		-	-	-	-
–	F.P.	18.2	65	38½	†Petra Diamonds	62½	+2	-	-	-	-
–	F.P.	0.63	40	13½	†Do Warrants	37½		-	-	-	-
143	F.P.	21.8	155½	150	Qualceram	155½		Q23%	-	1.5	-
§117	F.P.	16.1	124½	120½	Salehurst	121½		L3.75	1.3	3.9	19.4
§100	F.P.	10.3	105½	102½	†Soccer Investmnt	103½		-	-	-	-
–	F.P.	12.4	107½	107½	†Torch Hldgs	107½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 9	% chg on day	May 8	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1610.93	+2.6	1570.57	2357.85	2.11	–	2376.96	1468.60
Regional Indices								
Africa (14)	1800.32	+2.3	1760.43	3112.08	4.95	28.56	3197.52	1724.86
Australasia (6)	1781.13	+0.4	1774.86	2746.42	3.00	19.44	2746.42	1757.55
North America (11)	1544.32	+3.0	1498.65	2104.80	0.93	63.62	2126.45	1335.84

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 12	Day's chge%	May 9	May 8	May 7	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4669.6	+0.8	4630.9	4580.4	4537.5	3739.2	3.47	2.05	17.52	70.67	1985.50
FTSE 250	4526.4	.....	4526.2	4510.4	4519.0	4512.4	3.58	1.54	22.65	64.12	1881.59
FTSE 250 ex IT	4543.2	-0.1	4547.1	4533.9	4543.2	4654.9	3.71	1.57	21.44	66.68	1893.95
FTSE 350	2262.6	+0.7	2247.5	2226.2	2210.3	1897.1	3.49	1.95	18.32	33.80	1984.66
FTSE 350 ex IT	2262.6	+0.7	2247.5	-	-	-	3.52	1.96	18.07	1.49	1007.37
FTSE 350 Higher Yield	2198.1	+0.8	2179.6	2155.3	2138.0	1826.1	4.50	1.83	15.20	39.68	1615.75
FTSE 350 Lower Yield	2332.9	+0.5	2321.5	2303.5	2289.1	1975.5	2.46	2.19	23.21	27.46	1659.19
FTSE SmallCap	2314.04	+0.3	2308.06	2301.60	2304.85	2228.52	3.02	1.71	24.27	26.95	1956.06
FTSE SmallCap ex IT	2310.93	+0.2	2306.73	2302.62	2306.10	2226.99	3.24	1.78	21.65	29.00	1969.38
FTSE All-Share	2222.19	+0.6	2208.01	2188.16	2173.90	1882.84	3.46	1.94	18.65	32.66	1958.18
FTSE All-Share ex IT	2222.12	+0.6	2208.01	-	-	-	3.50	1.95	18.26	1.40	1006.99

FTSE Actuaries Industry Sectors

	May 12	Day's chge%	May 9	May 8	May 7	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4267.90	+1.1	4242.27	4196.92	4197.00	3455.42	3.55	2.02	17.45	85.94	1919.67
12 Extractive Industries(5)	4266.63	+0.2	4258.23	4234.30	4212.64	4612.70	3.69	2.38	14.21	104.80	1304.17
15 Oil, Integrated(3)	4443.02	+1.3	4386.42	4334.35	4340.26	3446.44	3.74	1.96	17.08	90.91	2045.13
16 Oil Exploration & Prod(12)	3492.61	+0.3	3480.55	3456.19	3438.87	2482.17	1.65	2.20	34.35	36.78	2139.10
20 GEN INDUSTRIALS(268)	1945.63	-0.3	1951.56	1950.83	1971.38	2133.48	4.11	1.91	15.94	31.31	1105.75
21 Building & Construction(35)	1398.63	+0.2	1395.99	1393.16	1392.34	1231.44	3.09	1.97	20.50	22.49	1214.33
22 Building Matls & Merchs(31)	1886.26	-0.6	1896.65	1889.35	1889.52	1957.32	4.26	2.77	10.60	34.84	992.69
23 Chemicals(26)	2321.44	+0.6	2308.11	2295.51	2299.89	2528.84	4.52	1.46	18.94	38.07	1146.09
24 Diversified Industrials(16)	1373.89	-1.9	1400.77	1407.77	1509.33	1788.51	5.28	1.97	12.00	36.17	813.63
25 Electronic & Elect Equip(38)	2107.31	-0.3	2113.68	2120.25	2127.03	2424.84	3.73	1.56	21.41	14.36	1126.62
26 Engineering(69)	2523.07	.....	2521.84	2519.55	2512.15	2459.40	3.36	2.46	15.13	31.12	1580.04
27 Engineering, Vehicles(13)	2769.00	+0.8	2747.07	2742.38	2755.94	3016.73	4.02	‡	‡‡	38.40	1482.23
28 Paper, Pckg & Printing(27)	2308.78	-0.5	2320.54	2332.05	2335.58	2798.82	4.53	1.87	14.72	41.88	1001.29
29 Textiles & Apparel(14)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 CONSUMER GOODS(94)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Alcoholic Beverages(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33 Food Producers(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Household Goods(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
36 Health Care(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
37 Pharmaceuticals(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
38 Tobacco(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 SERVICES(271)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Distributors(30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Leisure & Hotels(31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Media(44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Retailers, Food(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Retailers, General(53)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Breweries, Pubs & Rest.(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Support Services(54)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 Transport(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES(31)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Electricity(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Gas Distribution(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Telecommunications(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Water(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(675)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS(105)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Banks, Retail(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
73 Insurance(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
74 Life Assurance(7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
77 Other Financial(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79 Property(44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(127)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FTSE All-Share(902)	2222.19	+0.6	2208.01	2188.16	2173.90	1882.84	3.46	1.94	18.65	32.66	1958.18
105 FTSE All-Share ex IT(781)	2222.12	+0.6	2208.01	-	-	-	3.50	1.95	18.26	1.40	1006.99
FTSE Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE AIM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4641.8	4629.7	4623.2	4627.3	4629.3	4627.8	4633.4	4643.0	4660.5	4669.6	4622.9
FTSE 250	4530.6	4533.2	4530.5	4531.2	4528.5	4527.6	4526.3	4527.0	4526.0	4530.4	4525.8
FTSE 350	2252.2	2247.7	2244.8	2246.6	2247.1	2246.4	2246.5	2253.3	2259.0	2262.6	2244.8
FTSE All-Share	2212.52	2208.50	2205.91	2207.43	2207.29	2207.28	2208.29	2213.04	2218.41	2222.19	2205.83

Time of FTSE 100 Day's High / Day's low; FTSE 100 1997 High / Low; FTSE All-Share 1997 High / Low: [illegible]

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FTSE

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are ...

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

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PACIFIC

AFRICA

NORTH AMERICA

INDICES

BSE Sens.(1979)	3735.25	3768.34	(c)					
Indonesia								
Jakarta Comp.(10/8/82)	675.81	673.68	(c)	712.80	28/2	631.27	15/4	
Ireland								
ISEQ Overall(4/1/88)	3204.84	3193.18	3170.00	3204.84	12/5	2725.07	2/1	
Italy								
Banca Comm Ital(1972)	767.17	770.85	765.38	787.71	10/2	642.55	2/1	
MIB General(2/1/97)	1155.0	1160.0	1152.0	1197.00	10/2	991.00	2/1	
Japan								
Nikkei 225(16/5/49)	20143.51	19802.79	20061.81	20180.82	6/5	17303.65	10/1	
Nikkei 300(1/10/82)	289.86	287.22	290.83	293.64	6/5	251.94	27/1	
Bangkok SET(30/4/75)								
Turkey								
IMKB Nat 100(1986)	1395.00	1443.00	1459.08	1684.00	21/3	995.09	2/1	
WORLD								
MS Capital Intl(1/1/70)	888.7*	879.1	872.8	888.70	12/5	794.50	14/4	
CROSS-BORDER								
Eurotrack 100(26/10/90)	2294.96	2287.77	2286.39	2294.96	12/5	1880.80	2/1	
Euro Top-100(26/6/90)	1981.23	1952.89	1951.03	1981.23	12/5	1582.99	2/1	
HSBC JC Dragon(31/12/89)	(u)	405.35	403.07	429.48	20/1	381.54	29/4	
ING Brngs Emrg(7/1/92)	174.62	175.53	174.60	181.33	26/2	159.74	3/1	

US INDICES

Dow Jones	May 9	May 8	May 7	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7169.53	7136.62	7085.65	7225.32 (6/5)	6391.69 (11/4)	7225.32 (6/5/97)	41.22 (8/7/32)
Home Bonds	102.22	101.99	101.88	103.83 (19/2)	101.09 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2601.20	2617.23	2594.42	2624.01 (5/5)	2222.07 (2/1)	2624.01 (5/5/97)	13.23 (8/7/32)
Utilities	223.66	223.94	223.94	240.25 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7235.76 (7238.98) Low 7079.63 (7040.30) (Theoretical♠)
Day's high 7196.02 (7215.29) Low 7094.48 (7056.75) (Actual♠)

Standard and Poors	May 9	May 8	May 7	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	824.78	820.26	815.62	830.24 (5/5)	737.01 (2/1)	830.24 (5/5/97)	4.40 (1/6/32)
Industrials¥	969.97	965.13	959.83	976.56 (5/5)	865.42 (11/4)	976.56 (5/5/97)	3.52 (30/6/32)
Financial	93.31	92.35	91.74	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	428.23	426.90	424.85	431.43 (5/5)	389.47 (11/4)	431.43 (5/5/97)	4.64 (25/4/42)
Amex Comp.	573.78	570.95	570.50	603.63 (10/3)	541.20 (28/4)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1335.05	1330.83	1322.91	1388.06 (22/1)	1201.00 (2/4)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	May 9	May 2	Apr 25	Year ago
Dow Jones Ind. Div. Yield	1.71	1.73	1.82	2.20
	May 7	Apr 30	Apr 23	Year ago
S & P Ind. Div. yield	1.72	1.75	1.80	1.92
S & P Ind. P/E ratio	23.33	22.89	22.19	21.26

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	829.50	832.80	+2.95	832.80	830.10	71,264	183,158
Sep	839.30	841.00	+2.85	841.00	838.30	972	8,621

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	19710.0	20160.0	+360.0	20180.0	19570.0	28,362	235,759
Sep	19730.0	20020.0	+110.0	20050.0	19720.0	838	8,130

Open interest figures for previous day.

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
May	2636.0	2684.0	+69.0	2685.0	2630.0	13,193	25,942
Jun	2610.5	2659.5	+69.0	2658.0	2606.0	1,974	23,149
■ DAX							
Jun	3530.0	3593.5	+55.0	3603.5	3530.0	15,543	-
Sep	3558.0	3619.5	+58.5	3626.5	3558.0	189	-
■ OMX							
May	2174.00	2180.00	+7.00	2183.00	2167.00	2,273	25,309
Jun	2181.00	2189.00	+7.50	2189.00	2177.00	377	2,149
■ SOFFEX							
May	5000.0	5045.0	+45.0	5053.0	4968.0	11,741	23,152
Jun	4980.0	5031.0	+37.5	5033.2	4956.8	5,725	6,902

** Sat May 10: Taiwan Weighted Price 8274.19; Korea Comp Ex 678.88. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Standard & Poor's … † Correction. * Calculated at 15.00 GMT. ● Excluding bonds … ♠ The DJ Ind. Index theoretical day's highs and lows are … stock, whereas the actual day's highs and lows represent …

Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Monday, May 12, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Credit Bk ...	9.1m	263	+35	Canon ...	4.8m	3000	-100
Nippon Steel Cp ...	8.6m	376	-3	Matsushita E Ind ...	4.5m	2170	-50
Nomura Secs ...	7.4m	1570	+50	NEC Corp ...	4.4m	1580	-30
NKK Corp ...	7.3m	268	+2	Sumitomo Bank ...	4.4m	1570	+60
Nippon Oil ...	5.2m	650	+20	Ind Bk of Japan ...	4.4m	1410	+80

4 pm close May 12

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
32	24¼	AAR x	0.48	1.5	24	282	31⅞	31¼	31⅞	+¼
43	33½	AMP x	1.04	2.6	32	4355	39¾	38¼	39¾	+1¼
95¼	70¼	AMR			7	5162	u95⅞	92¾	95¼	+2⅝
37⅞	31⅝	ASA	1.20	3.6	22	618	33⅝	33	33⅛	-⅛
63¾	49¾	AbbtL x	1.08	1.7	25	7365	u64	62¾	63¾	+1
17½	14⅛	Abitibi Pr	0.40	2.3	9	498	u17½	17¼	17½	+¼
19¾	17⅜	ACM Ind	0.40	2.1	17	219	19¼	19⅛	19¼	
23	17¾	Acptncele			10	471	19⅞	19½	19¾	+⅛
65⅝	56⅛	ACE Ltd	0.72	1.2	10	1199	62¾	61⅝	62¼	+⅛
10¾	10	ACM Gvt In x	0.90	8.9	11	649	10⅜	10⅛	10⅛	-⅛
7⅝	7	ACM GvOpp x	0.63	8.4		70	u7⅝	7½	7½	
9⅞	8¼	ACM Man x	0.90	9.4		106	9⅝	9½	9⅝	+¼
10⅜	6¼	Acme Elect				44	6⅞	6⅝	6⅝	-⅛
20	13⅛	Acme Mills				190	14⅛	13½	13½	-⅜
17⅜	14	ACNielsen			29	2173	16⅝	16⅜	16½	
33	27¼	Acordia	0.80	2.5	15	257	32	31⅞	32	+⅛
29¾	21⅛	Acuson				2257	25⅛	23⅞	24⅞	+1⅛
21⅝	18⅜	Adams Expr	0.55	2.5	1	177	u21⅝	21⅜	21⅝	+⅛
48½	24⅞	AdvMic				14555	45	42⅞	43⅛	-1⅞
15	10⅜	Advant Grp	0.03	0.2	10	239	14⅜	14	14⅜	+½
14⅝	11⅞	Advo Inc			16	142	13⅝	13	13½	+⅜
73⅞	61⅛	Aegon	1.46	2.0	20	38	73⅝	73⅛	73½	-⅛
5⅛	3⅛	Aerfix				433	3⅞	3½	3⅝	-¼
43⅛	33	Aero-V	0.80	1.9	12	1267	41⅞	41⅝	41⅞	+⅛
66	48	AES Corp				z0	65¾	65¾	65¾	-1¼
100	73	Aetna x	0.80	0.8	55	6327	u100⅛	99⅛	99⅞	+⅞
45⅞	37½	AflacΦ	0.46	1.0	16	2544	45⅜	44¾	45⅛	+⅜
31⅝	19¼	AGCO	0.04	0.1	12	z0	29½	29½	29½	+½
21⅝	16⅜	AGL Res	1.08	5.4	13	299	20¼	19⅝	20	+⅜
45¼	32	Ahmann x	0.88	2.2	28	3533	40	39⅛	40	+⅝
[illegible]										

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
29⅛	15⅛	BBN				2297	28¾	28⅝	28¾	+⅛
20¼	19⅛	Bd Tr 1638	1.56	7.9		12	19⅞	19¾	19¾	-⅛
8⅛	7½	BEA Inc x	0.72	9.0		287	u8⅛	8	8	
9½	9	BeaStra x	0.81	8.6		30	9⅜	9⅜	9⅜	-⅛
34	26	BearSt	0.60	1.8	7	3382	33⅛	32⅞	33⅛	+⅜
35⅞	27½	Bearings	0.64	2.0	15	161	31¾	31¼	31⅜	
44⅛	37	Beckman In	0.60	1.3	17	742	u46¼	44⅞	46	+1⅞
51⅝	42⅞	BectnD	0.52	1.1	20	2968	48¾	47¾	48	+⅜
21¼	16⅝	BdfrdProp	1.04	5.8	15	142	18	17¾	18	+⅛
71⅜	58¾	BellAtl	2.96	4.3	16	7181	69¼	68½	69⅛	+¼
24	15¾	Bell In			9	55	16⅞	16¾	16¾	
47⅝	38⅛	BellSth	1.44	3.2	17	8684	45¼	44⅝	45⅛	+½
39½	33¼	Belo A	0.44	1.2	17	767	38⅜	38	38¼	-¼
43⅝	33⅝	Bemis	0.80	1.9	22	928	41½	40½	41½	+1
67	63¼	Benef 4.3P	4.30	6.6		20	65½	65½	65½	
75¾	60½	Benef	2.08	3.2	13	1871	65⅞	64⅜	64⅝	-¾
27⅞	22⅞	Benetton A	0.39	1.4	17	8	u28	27⅞	28	+¼
½	7/16	Benguet B			15	74	15/32	15/32	15/32	+1/32
37	27½	BergBr x	0.48	1.3	19	866	36½	35⅝	36⅛	+⅜
39800	33000	BerkHA			42	3	u39800	39300	39700	+300
1330	1088	BerkHB				28	1328	1316	1322	+6
18¾	13⅞	Berry Petr	0.40	2.5	18	40	15¾	15½	15¾	+⅜
14⅜	7⅞	Best Buy				2334	13¾	13¼	13½	-⅜
[illegible]										

Continued on next page

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FT

FINANCIAL TIMES

NYSE PRICES

4 pm close May 12

Continued from previous page

[illegible]

AMEX PRICES

4 pm close May 12

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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NASDAQ NATIONAL MARKET

4 pm close May 12

[illegible]

- J -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
J&J Snack		22	68	13½	13¼	13¼	-¼
Jason Inc		15	38	6 3/16	d6	6 3/16	-7/16
Johnson W			51	11¾	10¾	11¾	+¼
Jones Int			548	9½	9¼	9¼	-¼
Jones Med	0.08	46	1911	36¾	35	36	+¼
JSB Fin x	1.40	15	35	42¼	41¼	41¼	-⅝
Juno Ltg	0.32	13	33	15¾	15⅝	15⅝	-⅛
Justin	0.16	13	127	11⅝	11⅝	11⅝	+⅛

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	334	148	u13⅜	13¼	13⅜	
Kaman Cp	0.44	25	327	14	13¾	14	+⅛
Kelly Sv	0.84	14	196	28⅛	27½	27⅝	-¼
Kimball	1.04	13	273	38⅛	37½	37 17/32	-[illegible]
KLA-Tn		25	7693	50⅜	48¼	48 5/16	-[illegible]
Koll A			679	⅛	d[illegible]	[illegible]	-[illegible]
Komag♣		21	21108	u35⅜	33¼	35⅛	+1⅞
Kulicke S			7157	u33¾	32	32¾	+1

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow♣		12	439	15¾	14¾	15⅝	+⅞
Rallys			419	3 1/16	2⅞	2⅞	
Raymond	0.25	15	742	30½	30	30½	+½
RCSB Fn	0.60	12	3813	33¾	31½	33¾	+2⅝
Read-Rite			9869	27⅞	26⅝	27	-¾

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx♣		38	16228	57⅞	54½	54 [illegible]	-2 [illegible]
Xircom		18	2441	13	12½	12¾	
Xoma Corp			1286	5	4 [illegible]	4 [illegible]	+[illegible]
Yellow			956	20⅝	20¼	20¼	-¼
York Rsch		16	623	8 1/16	7¾	8 1/16	+[illegible]
ZionsUtah	1.76	19	122	134¼	132	134¼	+1⅜

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$7.125		0	8.25	7	Esprit Telecom ADS	US$5.375	-0.125	4400	12.25	5.375
Artwork Systems	US$10.625		36200	11	9.5	Innogenetics	US$11.375	-0.125	22905	12.75	10.375
Chemunex	FFr16		30000	18	16	Mercer Internl.	US$9.625		0	11.75	8.125
Dr Solomon's ADS	US$22.5		0	26.5	16.875	PixTech	US$4.375		0	6.125	4.25

Prices for 12/5/97. Please note that mid prices are now used to calculate highs and lows

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* FINANCIAL TIMES
Tuesday May 13 1997

US shares climb to fresh peaks

AMERICAS

US shares reached another all-time high at midsession, boosted by the continuing bullish view of the economy, *writes Jane Martinson in New York.*

By 1pm, the Dow Jones Industrial Average had risen 96.08 to 7,267.61, surpassing the record closing high of 7,225.33 established last Tuesday.

US bond prices provided support. The 30-year benchmark bond rose 5/32 to 96 23/32 on the back of a more positive outlook for interest rates.

Mr Warren Epstein, director of trading at Richard Rosenblatt & Co, said the price improvement was a "continuation of a lot of momentum, helped by the bond market and the secondary market". The momentum had been provided by good quarterly earnings figures and economic data last month which had helped reduce inflation fears.

However, Mr Epstein believed that the uncertainty over interest rates made the medium term performance of the market a "much tougher call to make".

Mr Stephen Slifer, the bullish chief US economist at Lehman Brothers, said the market was being fed by the view of a "low inflationary world that seems to be evolving".

Analysts were particularly cheered by the breadth of the recovery. The technology-driven Nasdaq index and the Russell 2000 continued their rebound after a difficult few months.

The Nasdaq rose 9.3 to 1344.35 while the Russell gained 2.12 to 363.54. The broader based S & P 500 rose 9.77 to 834.55.

IBM reached a 52-week high by rising almost 3 per cent or $4⅜ to $171⅞ as the market continued to digest an upbeat analysts' presentation last week.

Advanta, the specialist credit card bank which issued a profits warning earlier this year, fell $1⅜ to $26⅝ against the trend after being downgraded by Standard & Poors.

The market greeted the takeover of Smiths Industries by Fred Meyer, both retailers, by increasing the former's shares by almost 7 per cent to $42⅞ and knocking almost 1 per cent from the latter to $41⅞.

TORONTO continued to move higher, helped by the early show of strength on Wall Street. Golds were firm and banks made further upward progress. At noon, the 300 composite index was 42.28 ahead at 6,271.80.

Royal Bank of Canada gained 30 cents to C$59.90 and Canadian Imperial Bank of Commerce added 20 cents to C$33.65. Among golds, Barrick Gold closed the morning session 65 cents firmer at C$35.95.

Sao Paulo moves ahead

SAO PAULO remained on an upward path, boosted by continued demand in the telecommunications sector amid growing optimism over the sell off of the so-called Band-B cellular telephone concessions and legislative progress on a new telecommunications law.

The Bovespa index, up 4.1 per cent last week, was another 69 higher by midsession at 10,560.

Telebras, which posted strong gains last week on expectations of higher premiums on the Band B bidding process, added 1.3 per cent to R$134.70.

MEXICO CITY overcame a hesitant start and followed Wall Street higher; by midsession, the IPC index was up 21.98 at 3,895.36.

The bellwether Telmex was 6 centavos higher at 16.86 pesos, while Tamsa, a steel tube maker, jumped 2 pesos to 136 pesos.

MARKETS IN PERSPECTIVE

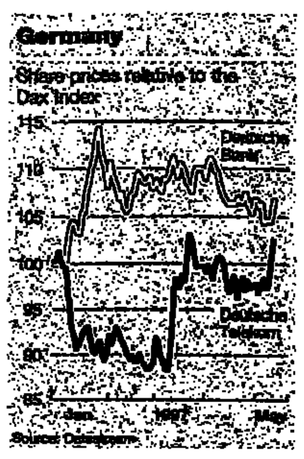
	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997	Start of 1997
Austria	+1.96	+5.57	+12.62	+9.30	+4.07	-1.43
Belgium	-0.60	+6.21	+34.13	+19.45	+13.66	+7.66
Denmark	+1.57	+3.70	+38.96	+16.18	+11.33	+5.45
Finland	+0.47	+6.77	+57.41	+20.27	+13.43	+7.44
France	-0.46	+2.34	+26.78	+13.97	+8.57	+2.83
Germany	+2.40	+5.06	+41.31	+21.71	+15.98	+9.85
Ireland	-0.46	+5.66	+25.78	+14.78	+8.16	+2.44
Italy	-0.37	+2.17	+17.24	+18.57	+12.68	+6.72
Netherlands	+1.33	+7.38	+39.68	+19.55	+13.63	+7.62
Norway	+1.38	+3.44	+32.92	+12.57	+7.13	+1.47
Spain	+2.48	+11.82	+54.69	+20.01	+14.26	+8.23
Sweden	+2.24	+5.23	+45.17	+17.22	+9.60	+3.81
Switzerland	+1.30	+8.51	+40.23	+26.55	+24.38	+17.81
UK	+2.48	+6.21	+19.42	+9.47	+9.47	+3.69
EUROPE	+1.63	+5.83	+29.93	+15.72	+12.38	+6.44
Australia	+0.70	+5.98	+12.00	+5.09	+8.87	+3.11
Hong Kong	+4.25	+7.82	+17.39	-3.51	+1.73	-3.64
Indonesia	+3.98	+4.36	n.a.	+4.96	+7.82	+2.13
Japan	+1.93	+11.76	-7.75	+2.49	+1.47	-3.90
Malaysia	+1.25	-3.37	-3.43	-10.19	-4.49	-9.54
New Zealand	+2.38	+5.06	+7.76	-1.91	+0.44	-4.87
Philippines	+2.14	-11.14	n.a.	-21.11	-16.92	-21.31
Singapore	+2.86	-1.35	-8.97	-6.34	-4.23	-9.29
Thailand	-8.26	-17.72	-60.46	-26.26	-23.42	-27.47
Canada	+0.35	+9.55	+22.48	+4.83	+9.69	+3.89
USA	+0.89	+10.79	+26.24	+10.04	+16.17	+10.04
Brazil	+1.88	+5.82	+65.87	+36.73	+40.85	+33.42
Mexico	+1.25	+1.37	+16.96	+12.67	+18.13	+11.89
South Africa	+0.02	+1.41	+4.76	+8.32	+19.68	+13.36
WORLD INDEX	+1.33	+8.93	+18.21	+9.33	+11.67	+5.77

† Based on May 9th 1997. © Copyright, FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. 1997. All rights reserved.

Dow inspires several bourses to new highs

EUROPE

An ebullient Dow, strong bonds and an intra-day recovery in the dollar took several bourses into new high ground. In FRANKFURT, the Dax index gained 59.93 or 1.7 per cent to an Ibis-indicated 3,575.37; but, as on last Friday, the rally excluded the cyclical stocks which had been so buoyant in 1996 and the first four months of this year.



"Defensive" stocks starred. Deutsche Bank rose DM4.35 or 4.7 per cent to DM96.85, turning over DM2.5bn within a German total of DM14.4bn, up from DM12.3bn last Friday. RWE rose DM2.49 to DM61.49 and Deutsche Telekom by DM1.28 to DM41.13.

Mr Neil Crowder at Goldman Sachs said he was positive on German banks, and that the sector was beginning to produce early indications of its progress in 1997. Other analysts said the market, satiated with the dollar effect and the 87 per cent leap in the Dax since March 1995, was looking for new stories; and that Deutsche Bank served, both as a proxy for the whole market and as a notably poor performer in 1996.

Deutsche Telekom, too, had been an underperformer, but it had come out of its shell since March. At the weekend, Der Spiegel said Telekom was planning measures to turn its cable business into profit; and, yesterday, analysts were hoping that today's annual news conference would produce upbeat earnings news for the current year.

PARIS moved strongly higher following an opinion poll swing in favour of the ruling coalition plus a renewed outbreak of deal rumours. At the close, the CAC 40 index was up 59.18 at 2,693.09.

Volume was dull and much of the day's upturn was said to stem from dealer mark-ups on the brighter political news ahead of this month's first round voting in the general election.

But there were a number of features. LVMH, which has a 14 per cent stake in Guinness, rose FFr68 or 4.9 per cent to FFr1,446 on the news of the Guinness and Grand Metropolitan merger. Pernod Ricard was also in demand, improving FFr8.60 to FFr308.50.

There were renewed outbreaks of deal-making talk in other sectors. Promodes, which has long been seen as a leading player in any rationalisation of the French retail industry, rose FFr93 to FFr2,028.

First quarter sales from Bouygues helped lift the shares by FFr15 to FFr537.

AMSTERDAM pushed to a fresh record, the AEX index gaining 7.27 to 788.08. Trading was on the thin side and dealers attributed part of the upturn to short-covering ahead of Friday's options expiry.

Fortis Amev added Fl 1.90 to Fl 77 but KNP BT turned the day's best performance, gaining Fl 1.20 to Fl 40.70. PolyGram was backmarker, off Fl 1.30 at Fl 97.60.

ZURICH shook off early weakness as a firming dollar propelled export-oriented stocks higher and took the market back into record territory. The SMI index finished 37.9 higher at 5,042.6.

Among the index heavyweights which led the turnround, Nestlé jumped SFr18 to SFr1,830. Roche certificates recovered from a low of SFr12,585 to close SFr60 higher at SFr12,730.

ABB, the electrical engineering group, rose SFr41 or 2.2 per cent to SFr1,928 on news that it had won a $160m contract for a power plant in Taiwan.

Further volatility in the Swiss National Bank continued to provide a sideshow. The shares, which jumped 21.5 per cent on Friday, tumbled SFr240 or 11.5 per cent to SFr1,850, but in volume of little more than 1,100 shares.

MILAN looked to Wall Street and firmer domestic bonds for support and while the Comit index was 3.48 weaker at 767.17, the real-time Mibtel index picked up from a low of 12,200 to finish 56 firmer at 12,314.

Pirelli rose L56 to L3,898 after the chairman told the annual shareholders' meeting that results for the first four months of this year were in line with 1996.

Generali was L378 higher at L29,756 ahead of results, after the market closed, which showed sharply higher consolidated net profit in 1996, helped by the sale of its stake in Axa, the French insurer.

MADRID hit another all-time high, the general index closing 12.63 or 2.4 per cent higher at 544.31.

Forecasts that April inflation would be below 2 per cent tomorrow, prompting another rate cut on Friday, dominated the market's thinking; so much so that although Telefónica came in with first quarter profits below expectations, the shares rose Pta145 to Pta4,055.

MOSCOW ended two months in the doldrums and rocketed 6.9 per cent higher after shares in the country's largest electric utility began trading in Europe.

The RTS index closed 23.19 higher at a record 360.72, up from the previous peak of 349.27 set on February 20.

Unified Energy System, Russia's electricity monopoly and the market bellwether, jumped 21 per cent on the RTS at one stage as the company's global depository receipts began trading in London. The receipts, analysts said, made Russian stocks more attractive to foreign investors by eliminating many of the settlement and other risks of doing business on the local market. UES closed 12 per cent higher at 31.2 cents.

ISTANBUL slumped 3.3 per cent as worries over the future of the Islamist-led coalition government grew once again. The IMKB National-100 index lost 48 to 1,395 but in turnover that dipped to L7,110bn as many investors shied away from taking new positions.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

May 12 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2288.74	2288.93	2289.71	2291.62	2292.43	2292.89	2293.46	2294.96
FTSE Eurotrack 200	2324.81	2328.83	2329.89	2328.01	2330.54	2330.33	2335.58	2342.13

	May 9	May 8	May 7	May 6	May 2
FTSE Eurotrack 100	2287.77	2288.39	2288.19	2289.32	2247.27
FTSE Eurotrack 200	2329.46	2320.54	2328.20	2325.75	2278.60

Base value 1000 (26/10/90); High/day: 100 - 2298.88; 200 - 2342.13 Low/day: 100 - 2287.88 200 - 2324.31. † Partial.
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Taipei slides on rumours over premier's future

ASIA PACIFIC

Late selling sent TAIPEI spinning lower as political uncertainty appeared to deepen into crisis.

The weighted index ended off 307.55 or 3.7 per cent at 7,966.64 with turnover surging to a hectic T$154.3bn.

Hit by a wave of heavy selling in the final hour, the index sliced down through its long-standing support level of 8,000 for the first time since March 25.

The shakeout stemmed from rumours that the Taiwan premier, Lien Chan, might be forced to resign as part of a planned cabinet reshuffle. Lien Chan faced intense criticism over the government's failure to check violent crime.

"People just pushed the panic button," said one broker. Plastics and construction sectors were the hardest hit, sliding 5 per cent and 5.2 per cent respectively.

TOKYO made a tactical shift as the dollar's recent weakness against the yen spurred buying interest in importers and other domestic demand-led issues, offsetting the retreat of many export-oriented stocks and helping the Nikkei average regain the 20,000 level, *writes Gwen Robinson.*

The 225 index rose 340.73 to 20,143.51, ending at the top of a wide trading range between 19,560.06 and 20,148.21. Stocks fell sharply in early trading as the dollar's dip below Y118 drove down exporters, particularly electricals and carmakers, on concerns about the impact of exchange rate losses on their earnings.

However, steady buying by pension funds and foreign investors of domestically-oriented stocks, including oil-related companies and retailers, drove the key index back up around midday. The market also benefited from a call by the finance minister, Mr Hiroshi Mitsuzuka, for stabilisation of foreign exchange rates.

Volume eased from 463m shares to an estimated 415m. Nippon Credit Bank, the day's most active stock, added Y35 to Y263. Advances led declines by 854 to 298 with 105 unchanged. The Topix index of all first-section stocks rose 15.41 to 1,493.45 and the capital-weighted Nikkei 300 by 2.64 to 289.86.

Oil-related stocks, including distributors and refiners, gained more than 6 per cent as a group on expectations that the yen's new strength would reduce the cost of crude oil imports. Nippon Oil added Y20 to Y650, Showa Shell Sekiyu Y79 to Y1,040, Mitsubishi Oil Y30 to Y548 and Tonen Y140 to Y1,460.

Papermakers also advanced, Oji Paper rising Y33 to Y733 and Nippon Paper Industries by Y40 to Y660. Food-related stocks fared well. Kikkoman added Y41 to Y739, Ajinomoto Y50 to Y1,190 and Nisshin Oil Mills Y29 to Y633.

Exporters saw profit-taking on exchange rate concerns, although Sony was unexpectedly strong on last week's announcement of record earnings, adding Y50 to Y9,570 after losing as much as Y250 in the morning. Toyota shed Y80 to Y3,740 in spite of expectations that the carmaker would shortly announce record earnings for the business year to March. Honda fell Y80 to Y3,950, Canon Y100 to Y3,000 and Fuji Photo Film Y190 to Y9,570.

In Osaka, the OSE average added 22.21 to 20,843.93 and volume dwindled to 17.6m shares. In London, the ISE/Nikkei 50 index eased 0.70 to 1,588.19.

BANGKOK moved lower for the sixth straight session as selling by foreign funds continued to dominate the thin trading conditions. The SET index fell 13.25 or 2.2 per cent to 592.18, a 76-month low.

Heavy selling was fuelled by deepening worries about the economy following reduced growth forecasts from the central bank.

The banks sector ended 3.6 per cent lower. Bangkok Bank fell Bt4 to Bt159 and Thai Farmers Bt5 to Bt104.

HONG KONG broke more records as another rally in HSBC spearheaded a drive to an all-time intra-day high before blue chips settled at a record close in record turnover. The Hang Seng index finished 57.00 higher at 13,987.80, off a high of 14,130.07. Turnover of HK$18bn was attributed to a shift in Asian fund flows into the territory after the market's recent strong performance.

HSBC romped to a record high of HK$224 before closing the session up HK$1 at HK$218.

SINGAPORE rose 1.7 per cent as a major US buying program sparked a revival of the recently dull market. The Straits Times Industrial index gained 35.27 at 2,101.48 in volume of 202.4m shares.

Singapore Press foreign stock and City Developments each rose by 70 cents, to S$29 and S$13.40 respectively.

KUALA LUMPUR was spooked by a selldown in motor stocks, which prompted across the board losses and left the composite index 18.85 or 1.7 per cent lower at 1,088.52.

Analysts noted that motor stocks were hurt by a stronger yen, which would raise the costs of car parts imported from Japan. Proton led the retreat, losing M$1.10 at M$13.60.

SEOUL was under pressure as a renewed weakening of the yen against the dollar, combined with political and financial concerns, left the composite index down 6.88 at 672.10.

SHENZHEN's hard currency B shares took their lead from a 4 per cent surge in the domestic A index as investors pumped cash in to the market on expectations that there would be no further government measures to calm the market after Friday's rise in the stock trading tax. The B index put on 3.88 to 183.50.

Golds lift South Africa

Golds continued to underpin Johannesburg, moving higher on the back of a better bullion price and helping to lift the all-share index by 10.9 to 7,190.3.

Industrials lost ground, but golds turned in another solid performance thanks to further gains for bullion which pushed up to its best level for a month. Dries rose 85 cents to R40.50. At the close the gold index was 30.3 higher at 1,267.9.

Industrials retreated 25.1 to 8,476.1. A profits warning from Nampak left the packaging group 65 cents lower at R18.00.

South African Breweries dipped R1.25 to R133.25 ahead of today's full year results.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 9 1997								THURSDAY MAY 8 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	230.92	0.9	211.41	177.64	203.30	197.30	1.0	3.66	228.81	209.31	179.05	203.12	195.27	230.92	188.44	209.34
Austria (24)	190.78	1.9	174.66	146.76	167.96	167.91	1.1	1.89	187.20	171.24	146.49	166.18	166.13	195.04	174.70	187.19
Belgium (26)	246.62	0.8	225.78	189.72	217.12	212.63	-0.2	3.36	245.12	224.23	191.81	217.60	213.05	246.62	205.89	206.60
Brazil (30)	253.07	0.0	231.68	194.68	222.79	496.56	0.1	1.52	253.06	231.48	198.02	224.64	496.03	253.07	162.25	163.60
Canada (113)	198.59	0.7	181.81	152.77	174.84	198.77	1.1	1.97	197.23	180.42	154.34	175.08	197.53	203.31	154.12	182.93
Denmark (32)	374.08	0.8	342.47	287.77	329.33	327.98	0.0	1.54	371.13	339.49	290.41	329.45	328.07	376.98	291.89	296.23
Finland (28)	266.97	1.2	244.41	205.37	235.03	286.66	0.3	1.59	263.91	241.41	206.52	234.28	285.76	268.58	183.06	183.06
France (91)	221.19	0.5	202.49	170.15	194.73	198.22	-0.4	2.88	220.13	201.36	172.26	195.41	198.96	226.25	186.94	194.62
Germany (59)	210.99	1.1	193.16	162.31	185.75	185.75	0.3	1.52	208.70	190.91	163.31	185.26	185.26	210.99	165.02	168.26
Hong Kong (66)	494.40	1.2	452.62	380.33	435.26	491.61	1.2	3.06	488.57	446.92	382.32	433.70	485.87	514.49	407.55	416.74
Indonesia (27)	236.73	1.6	216.73	182.11	208.41	352.76	1.6	1.56	233.04	213.18	182.36	206.87	347.12	–	–	–
Ireland (16)	342.24	1.6	313.32	263.26	301.30	317.60	1.1	3.01	336.89	308.17	263.62	299.06	314.20	343.35	270.08	278.92
Italy (59)	89.44	0.4	81.88	68.80	78.74	112.12	-0.3	2.22	89.10	81.51	69.72	79.10	112.42	96.32	73.26	82.29
Japan (485)	124.65	0.5	114.11	95.89	109.74	95.89	-1.2	0.82	124.04	113.47	97.06	110.11	97.06	159.23	107.57	158.90
Malaysia (107)	544.42	-0.2	498.42	418.81	479.30	525.76	-0.2	1.20	545.67	499.15	427.00	484.39	526.97	660.85	512.47	568.85
Mexico (27)	1385.25	1.5	1268.19	1065.65	1219.54	11970.34	1.2	1.21	1364.81	1248.46	1067.99	1211.54	11826.73	1445.68	1110.35	1237.04
Netherland (19)	366.61	1.3	335.63	282.02	322.75	318.67	0.4	2.46	361.78	330.94	283.10	321.16	317.28	366.61	279.88	293.62
New Zealand (14)	86.97	-0.4	79.62	66.90	76.56	67.20	-0.7	4.23	87.30	79.86	68.31	77.50	67.65	85.60	75.94	81.37
Norway (41)	301.44	0.5	275.96	231.89	265.38	288.25	0.0	2.14	299.89	274.32	234.67	266.21	288.34	321.23	243.72	244.84
Philippines (22)	159.03	-0.8	145.59	122.34	140.01	209.00	-0.7	0.89	160.24	146.58	125.39	142.24	210.58	–	–	–
Singapore (43)	386.14	1.4	353.51	297.05	339.95	256.33	1.1	1.10	380.83	348.37	298.01	338.07	253.47	448.01	360.06	430.13
South Africa (44)	362.50	0.4	331.87	278.86	319.14	353.33	0.2	2.38	360.96	330.19	282.46	320.43	352.62	370.12	301.49	342.04
Spain (35)	242.07	1.8	221.61	186.22	213.11	262.65	1.1	2.49	237.88	217.60	186.15	211.17	259.92	242.07	171.91	174.54
Sweden (49)	441.36	0.8	404.07	339.53	388.57	501.54	0.3	2.08	437.98	400.64	342.73	388.80	499.89	448.64	334.35	342.57
Switzerland (35)	283.51	0.9	259.55	218.10	249.60	251.05	-0.1	1.33	281.04	257.08	219.92	249.48	251.33	283.51	229.36	233.71
Thailand (43)	68.18	-1.9	62.42	52.45	60.02	68.74	-2.2	4.53	69.48	63.56	54.37	61.68	70.30	184.18	68.18	181.51
United Kingdom (211)	296.40	0.9	271.35	228.01	260.94	271.35	1.0	3.63	293.61	268.58	229.75	260.64	268.58	296.40	229.63	231.06
USA (652)	333.81	0.5	305.60	256.79	293.88	333.81	0.5	1.82	332.13	303.82	259.90	294.84	332.13	336.17	254.79	263.10
Americas (822)	305.31	0.5	279.51	234.87	268.78	257.15	0.5	1.82	303.74	277.85	237.68	269.63	255.78	307.12	233.09	240.66
Europe (725)	257.47	0.9	235.71	198.06	226.67	237.66	0.5	2.66	255.08	233.34	199.61	226.44	236.60	257.47	204.71	207.13
Nordic (150)	381.48	0.8	349.25	293.47	335.85	373.82	0.2	1.93	378.44	346.18	296.14	335.94	372.94	385.85	281.45	283.54
Pacific Basin (883)	143.62	0.6	131.48	110.48	126.44	109.71	-0.7	1.31	142.81	130.64	111.76	126.78	110.49	171.79	127.18	171.55
Euro-Pacific (1608)	191.10	0.8	174.95	147.01	168.24	158.01	-0.1	2.06	189.63	173.47	148.39	168.34	158.12	191.51	173.55	186.26
North America (765)	325.52	0.5	298.01	250.42	286.58	324.94	0.5	1.83	323.86	296.25	253.42	287.49	323.21	327.69	248.65	256.86
Europe Ex. UK (514)	230.86	0.9	211.35	177.59	203.24	214.38	0.1	2.10	228.74	209.24	178.99	203.05	214.13	230.86	185.65	189.01
Pacific Ex. Japan (398)	305.06	0.8	279.28	234.68	268.57	265.52	0.8	2.78	302.69	276.88	236.86	268.70	263.46	320.65	268.97	290.15
World Ex. US (1822)	194.46	0.8	178.03	149.59	171.20	164.14	0.0	2.05	193.00	176.54	151.02	171.32	164.13	194.46	176.94	187.27
World Ex. UK (2263)	233.28	0.6	213.57	179.46	205.37	206.94	0.1	1.76	231.87	212.11	181.45	205.84	206.63	233.28	199.58	208.37
World Ex. Japan (1989)	297.10	0.7	271.99	228.55	261.56	286.75	0.5	2.17	295.12	269.96	230.94	261.98	285.27	297.10	233.10	239.38
The World Index (2474)	238.66	0.6	218.49	183.60	210.11	212.78	0.2	1.95	237.14	216.93	185.57	210.51	212.28	238.66	202.32	210.43

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YEAR END 1996 FINANCIAL RESULTS
(Audited by Ernst & Young, Bahrain)

CONSOLIDATED BALANCE SHEET (AT 31 DECEMBER 1996)	(US$ million) 31 Dec 1996	31 Dec 1995
ASSETS		
Liquid funds	236	332
Marketable securities	2,622	1,844
Placements with banks and other financial institutions	7,352	7,115
Loans and advances	11,323	10,668
Interest receivable	472	411
Investments in associates	87	80
Other investments	103	104
Other assets	328	260
Premises and equipment	465	451
	22,988	21,265
LIABILITIES		
Deposits from customers	10,395	9,795
Deposits from banks and other financial institutions	8,426	7,711
Certificates of deposit	188	209
Interest payable	400	347
Other liabilities	309	280
Minority interests	314	274
	20,032	18,616
TERM NOTES, BONDS AND OTHER TERM FINANCING	1,299	1,109
SHAREHOLDERS' FUNDS		
Share capital	1,000	1,000
Treasury stock	(75)	(75)
Reserves & retained earnings	603	499
Current year's profit	129	116
	1,657	1,540
	22,988	21,265

CONSOLIDATED INCOME STATEMENT (FOR THE YEAR ENDED 31 DECEMBER 1996)	(US$ million) Jan-Dec 1996	Jan-Dec 1995
INCOME FROM OPERATIONS		
Net interest income	402	386
Other operating income	257	289
TOTAL INCOME	659	675
Operating expenses	(417)	(409)
OPERATING PROFIT BEFORE LOAN LOSS PROVISIONS	242	266
Loan loss provisions	(32)	(84)
PROFIT BEFORE TAXATION AND MINORITY INTERESTS	210	182
Taxation on foreign operations	(48)	(33)
Minority interests in subsidiaries	(33)	(33)
NET PROFIT FOR THE YEAR	129	116

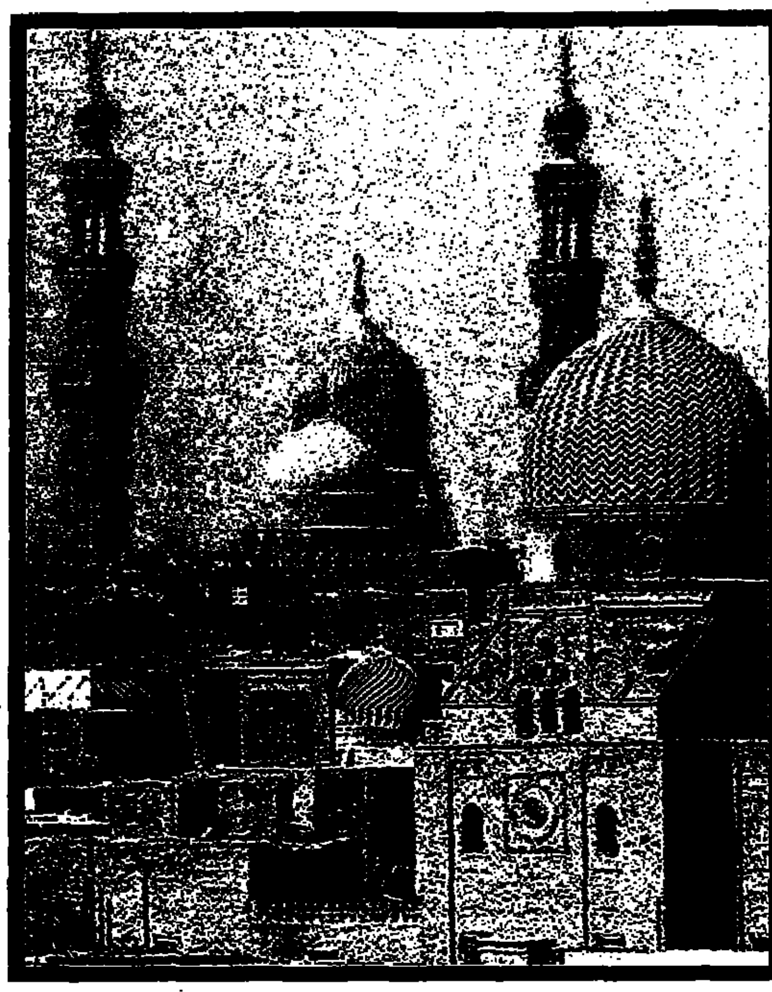
المؤسسة العربية المصرفية (ش.م.ب.)
ARAB BANKING CORPORATION (B.S.C.)
ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Bahrain.
Tel: 532235 Fax: 533062, 533163 Tlx: 9432 ABCBAH BN CR No 10299

هكذا من الأصل

Egypt

Economic successes need to be bolstered by stronger exports and more foreign direct investment. **David Gardner** reports

On the scent of an emerging market



Above: Egypt's primary education system is creaking: these Coca-Cola workers attend company classes to improve their skills in reading, writing and maths

Left: Cairo mosques and minarets

Right: the Statues of Ramses II at Abu Simbel

The hotels and ministerial ante-rooms of Cairo these days teem with throngs of international investment bankers on the scent of a new emerging market. More intriguing still are the clutches of young Egyptians returning from abroad, along with a sprinkling of émigrés from the 1960s who left after Nasser nationalised large swathes of the Egyptian economy. Cairo has a discernible buzz about it.

During last year, which President Hosni Mubarak promised would be "the year of breakthrough", the new cabinet headed by Prime Minister Kamal el-Ganzouri did enough to raise the Egyptian flag on the international investment map, and convince at least the Egyptian elite that the economy is in transition towards sustained, stable and export-led growth.

The domestic and foreign investors needed to generate the annual growth of around 7 per cent that Egypt requires to offer its fast-growing population a living are now waiting for the follow-through, watching for any loss of nerve by the government.

Having successfully stabilised the macroeconomy over the past five years, and embarked on privatisation in earnest last year, the government now faces challenges which will really test its credentials. These include the more problematic sales of state assets, complex deregulation, legislative reform and institution-building, as well as structural overhaul ranging from tariff reduction to the wholesale reform of Egypt's collapsing education system.

"If economy is 80 per cent science and 20 per cent art, then we're in the 20 per cent art part," says Mr Youssef Boutros Ghali, minister of state for the economy.

But as it feels its way forward, the government's attention will also be engaged in trying to halt the regional slide into the Arab conflict with Israel. At the same time, it shows little inclination to strengthen the foundations of the liberalising economy through reform of its authoritarian political system.

The macroeconomic fundamentals are solid. Inflation is on line for the government's target this year of 6.2 per cent and the budget deficit is a mere 0.8 per cent of GDP, down from 20 per cent six years ago. Foreign exchange reserves stand at over $19bn: enough to cover 14 months of imports; twice the debt service requirements of the next five fiscal years; and enough to run small current account deficits over the same period and maintain exchange rate stability.

But the requirement now is to lift growth from something under 5 per cent of GDP a year to at least 6.5 per cent over the next three years, to have some chance of absorbing over half a million new entrants to the labour market each year. That is not possible with current levels of savings and investment, with gross national savings at 18 per cent of GDP – about half the level common among Asian "tiger" economies. By government and IMF estimates, Egypt needs to raise its savings ratio to between 25 and 28 per cent.

Last year's spate of privatisations, following the first majority sale of a state-owned company – Nasr City Housing – in May, unlocked perhaps half the needed annual increase in investment. The government has sold off through the stock market most or part of more than 40 of 314 companies under consideration. This has helped pull in foreign portfolio investment estimated by the IMF at $1.3bn for the fiscal year ending June 30, as well as foreign direct investment of $800m – up from $50m and $600m respectively in 1995-96.

But few of the remaining companies are attractive enough to be offered through the market, and the government will thus be looking for direct investors with the technology and skills to turn these companies around. This could be a lengthier process than public offerings and mean that privatisation will no longer be the main fuel driving up the stock market. The sale of second tranches in part-privatised companies is also problematic unless the government offers discounts to their currently high prices.

But direct sales to strategic investors could start a serious inflow of direct investment and begin to increase Egypt's still small non-oil exports. "Only then will you know whether the reforms have really taken root," says a senior IMF official.

Mr Boutros Ghali partly concurs when he says that "in the next 10 years we must live and breathe by exports. That is what will give you 6 to 8 per cent growth."

But concerted structural reforms are needed for the direct investment and exports equation to work. Priority concerns for investors include corruption and bottlenecks in ports and customs, arbitrary tax inspections, and the difficulty of enforcing contracts – the World Bank says it takes an average of seven years to settle a commercial dispute at an average cost of 7.5 per cent of the final settlement.

The government recognises these shortcomings, but it has not yet moved decisively to correct them.

"Investors will not come onto an unlevel playing field," argues Mr Arvind Subramanian, IMF representative in Cairo. Above all, he says, tariffs must be reduced "to prove that this is not just a market for privileged incumbents reaping off monopoly profits". A classic example is the car assembling industry, so highly protected it is profitable even while operating at half capacity.

A related problem is whether Egypt is capable of producing entrepreneurs from the class of rentiers and traders which until now has lived off the distortions within the system – and which includes multinationals which have already become part of this insider's game. Mr Boutros Ghali's frank judgment is that most cannot make the transition to open competition and "should sit back and finance those who can".

In this respect, the most encouraging recent development has been the first share sale through the market by a private company. Olympic Group sold 17 per cent of Cairo Precision Industries, its electronics and boilers subsidiary, in January, in an issue that was 11.4 times subscribed. Since then Olympic has developed plans to float all 12 of its companies and create three new ones, while investment banks across Cairo say several manufacturing groups are readying themselves to go public as a means of expanding and diversifying.

In January, too, Standard & Poors gave Egypt an investment grade rating. "You've quantified the risk and that makes it a lot easier to sell Egypt," says Mr Hassan Heikal of EFG-Hermes, the leading Cairo investment bank. The government believes the time is now ripe to issue a eurobond partly denominated in Egyptian pounds, not so much for the money as to set a benchmark for Egyptian corporate borrowers. "I'm already rated at investment grade, now I want to be priced at investment grade," explains Mr Boutros Ghali.

Ministers argue that the extent to which these positive developments could be overshadowed by any further deterioration in the Middle East peace process is limited. "I'm selling myself as a great house in a lousy neighbourhood," says Mr Boutros Ghali.

They are less convincing when they present the government's increasing willingness to take businessmen into its policy-making councils as democratic reform. However intrinsically healthy, this does no more than pad the army and security services backbone of the state with private sector tissue, argues one investment banker. He sees some risk to the legitimacy of economic reform, especially because of the further dislocations it will cause, "until the country has gone through the democratisation process".

"If you're asking me whether there's a tiger on the Nile, there's no tiger on the Nile," he says. "We're not there yet."

IN THIS SURVEY

Editorial production: Ian MacDonald, Paul Smith

Your Non-Traditional Banker in Egypt

Commercial International Bank (Egypt) S.A.E.

Head Office: Nile Tower Building, 21/23 Giza St., Giza, P.O. Box 2430 Cairo
Tel: 5703043 (6 lines) - Tlx: 20201 CNBCA UN - Fax: 5702691 / 5703172

VITAL

■ Area: 997,738.5 sq km
■ Population: 60.2 million (1996/1998 fiscal year)
■ Languages: Arabic, French, English
■ Main towns & population (July 1992 estimate)

Cairo (capital)	6,800,000
Alexandria	3,380,000
Giza	2,144,000
Shubra El-Kheima	834,000
Port Said	460,000

■ Currency: 1 Egyptian pound (E£) = 5 tallaris = 100 piastres
Exchange rate:
1996 average $1 = E£3.4001
May 2 1997 $1 = E£3.3952

■ **Legal system**

Based on constitution of 1971

■ **National legislature**

Unicameral Majlis al-Shaab (People's Assembly) of 444 directly elected members and ten additional members nominated by the president; deputies serve a five-year term. All candidates contesting the elections now run individually. The president may dissolve the assembly only if he gains the support of the people in a referendum. The National Democratic Party has an overwhelming majority in the assembly.

■ **Electoral system**

Universal direct suffrage

■ **National elections**

November 29 1995; next elections due by October 1999 (presidential) and November 2000 (legislative)

■ **Head of state**

President; nominated by two-thirds majority of the assembly and elected by referendum. Currently Hosni Mubarak, re-elected for a third six-year term in October 1993.

■ **National government**

Council of Ministers headed by the prime minister. The president is responsible for appointing and dismissing all ministers. The assembly can require a minister to resign if it passes a motion of no confidence in him. Should a motion of no confidence in the prime minister be passed against the president's wishes, the matter may be put to a referendum. Last major cabinet reshuffle: January 3 1996

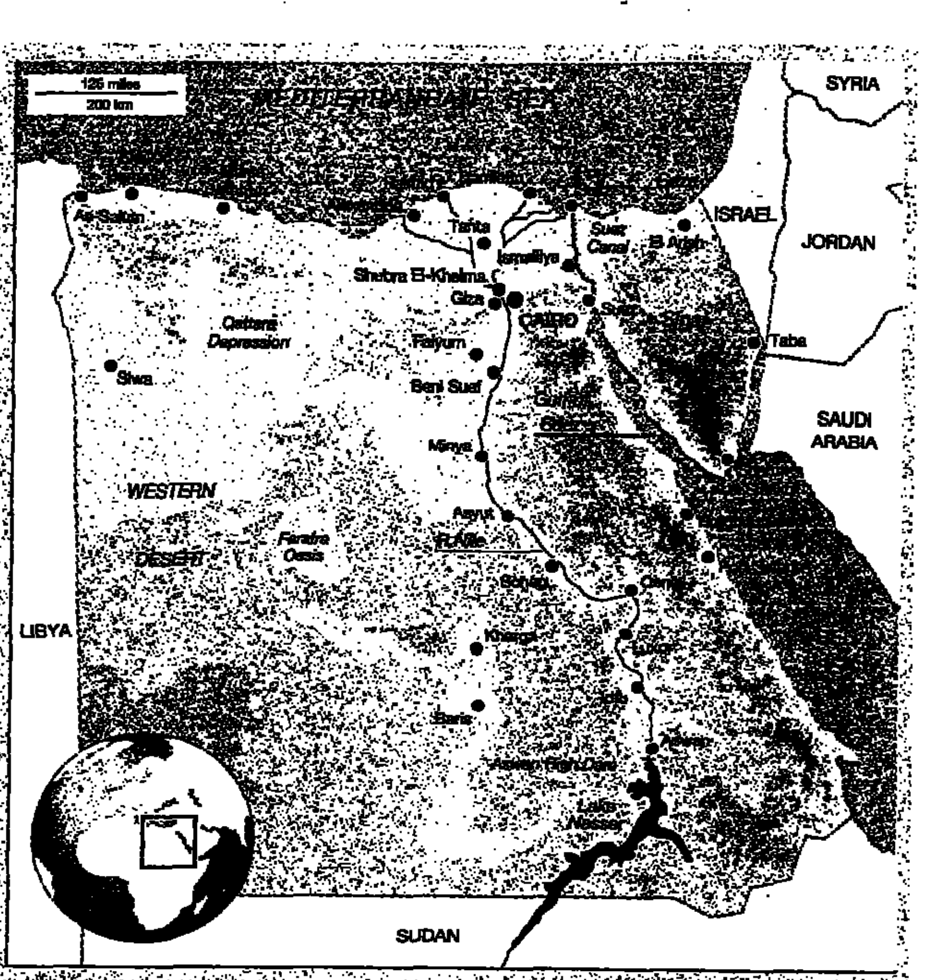
■ **Main political parties**

- National Democratic Party (NDP)
- Socialist Labour Party (SLP)
- Socialist Liberal Party
- New Wafd Party
- National Progressive Unionist Party
- Democratic Nasserist Party

■ **Ministers**

- Prime minister & minister of planning: Kamal Ahmed al-Ganzouri
- Deputy PM & minister of agriculture & land reclamation: Youssef Amin Wali
- Defence: Mohammed Hussein Tantawi
- Economic affairs (minister of state): Youssef Boutros-Ghali
- Economy & international cooperation: Nawal al-Tatawi
- Electricity & energy: Maher Abaza
- Finance: Mohieddin al-Gharib
- Foreign affairs: Amr Moussa
- Housing & new communities: Mohammed Ibrahim Soleiman
- Industry: Soleiman Reda
- Information: Safwat al-Sharif
- Interior: Hassan Mohammed al-Alfi
- Local government: Mahmoud Sherif
- Petroleum: Hamdi al-Banbi
- Public enterprise & admin & development & environment: Atef Obeid
- Supply & home trade & foreign trade: Ahmed Gowily
- Tourism: Mamdouh al-Beltagi
- Transport, communications & civil aviation: Soleiman Metwalli

Source: Office of the Minister of State; Prime Investments; EIU; Europa



Economic summary

	1996/97 Estimate	1997/98 Forecast
Total GDP, current market prices ($bn)*	65.48	70.1
Real GDP growth (annual % change)	4.5	4.8
GDP per head ($)*	1,121	1,233
Inflation, (average annual % change in CPI)	6.8	6.3
Unemployment rate, (%)*	14.4	14.0
Money supply, M2 (annual % change)*	9.7	10.4
Nominal interest rate (%)	10.0	9.0
Gross official reserves ($bn)	18.5	18.4
Fiscal balance (% of GDP)	-1.1	0.2
Current account balance ($bn)	-0.8	-1.0
Merchandise exports ($bn)	4.89	5.22
Merchandise imports ($bn)	-14.9	-16.4
Trade balance ($bn)	10.0	9.0

Main trading partners (share of total trade to world, 1995)

Exports		Imports
18.6%	Italy	7.6%
11.1%	US	18.9%
6.8%	Germany	9.6%
6.6%	UK	3.6%
4.1%	France	7.5%

* Calendar years 1996 and 1997; rest are years from July to June

THE ECONOMY • by Mark Huband

Pressures met with a mix of euphoria and concern

Foreign creditors see Egypt, which met IMF targets, as a donor friendly debtor

The Egyptian government is keen to portray the management of success as its main challenge.

A glance at the macroeconomic figures suggests that fiscal goals are within sight, inflationary pressure can be kept below its target of 6.2 per cent – in February it was 5.4 per cent – and the aim of achieving 6 per cent or 7 per cent growth by mid-1998 can be discussed as a real possibility.

An enviable 1 per cent budget deficit is likely to fall to 0.8 per cent this year, while monetary growth will rise to 11 per cent, according to the IMF.

Foreign currency reserves of $19bn, up from $16.9bn in October, have allowed the government to maintain exchange rate stability and bolster confidence in the currency, while countering calls by the IMF for devaluation to be considered. Twenty per cent of liquidity is held in foreign currency, compared with 49 per cent in 1991, borrowing in foreign currency having consequently become cheaper.

Foreign creditors now group Egypt among donor friendly debtors, it having more than achieved targets set with the IMF in October, repaid $300m to Paris Club creditors in January, and moved far from its position of five years ago, when there was a prospect of default on its $40bn debt. This now stands at $31bn – $53.7m of it in arrears, according to central bank figures.

"All this shows confidence. The risk adjusted perception has changed, even though the nominal return has declined slightly," says Mr Arvind Subramanian, the IMF representative in Cairo. "The question now is how to prevent the capital inflows from complicating the macroeconomic targets."

IMF estimates put the amount of portfolio investment in the fical year to June this year at $1.3bn, and foreign direct investment at $800m, creating upward pressure on the exchange rate – a pressure the government has dealt with by buying up foreign exchange, with increased liquidity as a consequence.

These pressures, which have mounted in the past year, have been met with a mixture of euphoria and concern.

"Until inflows reach $2.5bn I don't have major problems, says Mr Yousef Boutros Ghali, the minister of state for the economy. . "I hold the money in the central bank, earning 5 per cent, and issue treasury bills at 8 per cent. It's beyond a $3bn inflow that you start getting a problem."

However, the strategy of issuing bills to sterilise the inflows is not viewed as eternally beneficial, as extensive sterilisation merely attracts further inflows, forcing reconsideration of the strategy and a decision as to whether allow a rise in inflation.

"The government is on the horns of a dilemma. It must now decide what it wants to do," says Mr Subramanian.

The government remains chiefly concerned by the ability of the capital market to soak up the inflows. To continue attracting current levels it knows that foreign direct investment must follow along the path already forged by foreign portfolio investors.

One sign that the capital market has coped with the flood of cash has been a 15 per cent fall in stock prices – which had soared to dizzy levels – in the past three months. Equally, settlements have been taking much less time, suggesting that the institutional basis has strengthened.

With foreign investors already apparently convinced that Egypt is a good bet, the coming year will see government efforts switch to encouraging direct investment from domestic savings in an effort to reach the growth target.

"We have aroused the investment giant. It's a matter of continuing what we have been doing in the past 15 months. And what I need is savings" says Mr Boutros Ghali. "Foreign investment will bring its own savings. We can use the foreign investment crutch. But we can't grow at 7 per cent or 8 per cent on foreign investment. And we don't want to run up a balance of payments deficit to increase savings."

Mr Boutros Ghali puts domestic savings at between 9 per cent and 11 per cent of GDP, a level which needs to be doubled if savings are to play a significant role in accelerating growth. The government also intends to tap the E£60bn assets of the Egyptian insurance industry, and modify the tax treatment of pension funds to encourage new sources of domestic investment.

Second to savings, the government wants a rapid increase in exports, exploiting a competitive edge provided by cheap labour – vaunted as an asset rather than as a sign of social deprivation.

"In the next 10 years we must live and breathe exports, in order to see that 6 per cent to 8 per cent growth," says Mr Boutros Ghali. He believes that Egypt can supplant the textile manufacturing of south-east Asia because of its lower costs.

But predictions of high growth are viewed as dangerous by some economists.

Mr Maxwell Fry, professor of international finance at Birmingham University, said at a recent Cairo economic conference: "If the government convinces the population that the growth rate will accelerate in the near future to 9 per cent, the rational individual may well react by consuming more now, anticipating that he or she will also be able to consume more in the future as well. The result is a reduction in the current saving ratio.

"If the predicted growth acceleration fails to materialise, in part because of the lower saving induced by triumphalistic pronouncements by government on the economic front, the country may well find it has over-borrowed in international capital markets. Large capital outflows, when reality hits, then cause a balance of payments crisis."

Egypt's flight up the scale of suddenly attractive emerging markets has been dramatic, and has encouraged a degree of triumphalism as well as bringing between 500,000 and 1m domestic investors and a large number of foreign portfolio investors to the Cairo stock exchange, now capitalised at E£56bn, according to the Capital Market Authority.

But as a proportion of the 60m population, whose average annual income stands at $970, this shareholding sector is minuscule. Equally, Egypt does not have a domestic market capable of stimulating domestic growth.

> This year will see moves to boost direct investment from domestic savings

Meanwhile, a great deal of politics lies at the heart of the vigorous claims that the extensive privatisation programme – and legal and institutional reforms intended to facilitate rather than hinder trade and enterprise – are a springboard for a future of unprecedented brightness.

The reformers, who have insisted on the rapid pace of privatisation, have been able to demonstrate to the faint-hearted that their strategy has earned the exchequer at least E£5bn from sales, 40 per cent of which is expected to be used to pay public sector debt.

A group of 10 senior ministers and civil servants has steered the reform process, while others in the government are viewed as hangers-on who would revert to the dictates of a centralised economy if that was what they were told to do. The reformers' efforts would have failed but for the support of President Mubarak.

Now, triumphalism has undergone further transformation, into aspirations towards regional economic leadership – which cautious critics view as ludicrously ambitious due to the incompleteness of the necessary institutional reforms.

The prospects at home are far from clear. The success of the past few months – not even years – has created pressures which must be handled carefully, if the portfolio investors find new markets elsewhere before new sources of domestic investment are established.

Among financiers there is little conviction that the reformist zeal has infected the national psychology. Some bankers wonder about the liquidity of the stock market investors, while others meet the government's euphoria with caution.

"Every time we want to raise $400m to $500m we have to attract freign direct investment. There's something wrong in that," says Mr Adel El-Labban, managing director of Commercial International Bank, Egypt's biggest joint stock private-sector bank.

The cautious tone is likely to be adopted more regularly in the coming months, when it is realised that much of what has been achieved – and a great deal has been achieved – stems from decisions made by a government which is answerable only to itself, there being no substantial opposition. Pushing reform beyond the salons and boardrooms of Cairo by way of presidential decrees is, while not easy, certainly a largely technical procedure. Now it is up to the country to change accordingly.

"It's still an economy that is investor unfriendly, in the form of tariff rates and impediments to investment," Mr Subramanian says. "You still do not have a considerable and genuine private sector. Many of the (private sector leaders) are privileged, long arms of the state."

LEADERS IN EGYPT

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First international securities house to trade Egyptian equities

1996

First to launch an offshore investment fund for Egypt $46m –
The Egyptian Investment Company
Suez Cement GDR issue $114m
Co-lead manager

1997

Al-Ahram Beverages Co. GDR issue $88m –
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19 YEARS OF GROWTH

Established: 1978

Paid up Capital: US$40,000,000 fully paid (132,800,000 LE)

Shareholders: 100% Egyptian individuals

Network of Branches: 16 offering a range of retail and corporate banking services

Branches under establishment: 2

Group of affiliated companies: 18

Our Strategy: quality service

New Products: Visa and Master Card credit cards both in US$ and Egyptian pound

Our correspondents: network of prime Banks all over the world

Egyptian Ranking according to the American chamber of commerce in Egypt magazine December 1995: 13

Number of employees: 866

B.I.S: 13.2% 14.4%

Such ratios prove the bank's capability and solvency in anticipation to any future risks.

HEAD OFFICE

35 Ramsis St., Cairo - Egypt
(Abdel Moneim Riad SQ)
PO Box 2741
Telex: 22344 - 20785 - Banil UN
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Fax: (202) 5756296
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Overseas Representative: Mr Ibrahim Khalifa
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POLITICS • by Mark Huband

'Pre-democratic' struggles

The central domestic issue remains the economic reform programme

The language of the open market may have infected the talk of Cairo's boardrooms and economic ministries, but the political scene is still dominated by a security-centred approach to Islamist politics and a reluctance to allow political opposition to function effectively.

Popular indifference to electoral politics has played into the hands of the ruling National Democratic party, but also helps its enemies.

The NDP's 417 seats in the 444-seat parliament, its strong influence among labour unions and its landslide victory at local council elections last month, could be viewed as an ideal springboard from which to launch economic reforms. However, a broad swathe of people, not just among the NDP's declared opponents, see its stranglehold on power as having the long-term potential to benefit its most radical opponents – the Islamists.

"Nobody in Egypt takes any election seriously," says Mr Hossam Issa, a law professor at Cairo's Ain Shams University and member of the Nasserite socialist party. "The political parties are so weak, and they are there to give an impression of a false democracy. Meanwhile, the Islamists are in a period of stabilisation and are not weakening," he says.

The central domestic political issue remains the government's economic reform programme – introduced with a minimum of consultation – coupled with the consolidation of state control of the labour unions.

Last November, the governing boards of 23 state-sponsored unions remained firmly pro-privatisation, following elections at 2,400 mostly public sector companies. Critics of the privatisation process attribute the government's success to the prevention of candidates who were opposed to the privatisation of state-owned enterprises from completing their nomination procedures.

So far the public sector has shed 120,000 employees, either through privatisation or pre-sale restructuring.

"I'm not worried about the problem of labour," says Mr Atef Obeid, the minister for public enterprise. "Labour costs here are within the magnitude of 12 per cent to 14 per cent of turnover. In agriculture, workers have been offered cash payments to establish their own business. Among companies earmarked for privatisation, which are in the red but can be restructured, redundancies will cost E£200m, and among those reckoned to be illiquid, the cost will be E£300m."

April elections for 47,382 local and municipal council seats saw 22,912 NDP candidates unopposed. The opposition fielded only 8,000 candidates, according to the Egyptian Organisation for Human Rights (EOHR). It assessed turnout at 5 per cent to 20 per cent, reflecting lack of interest among the 11m eligible voters.

Some believe this apathy reflects the general view that as parliament is the main political forum open to the opposition, local councils are not important. The Islamists take a different view. They argued before the elections that the arrest on the eve of the election of 27 alleged members or sympathisers of the outlawed Muslim Brotherhood showed how important the contest was to the government.

The apparent end of attacks by Islamists on tourists has tended to give the impression that the Islamic groups no longer play a part in Egyptian politics. With an estimated 17,000 political detainees in prisons, according to the EOHR, much of the Islamist's organisational ability has been undermined.

"We have opposition. The opposition is financing violence. So they don't constitute opposition," says Gen Hassan Al-Alfi, the interior minister. "They are committing crimes. How can they be considered opposition when they are hiding behind the curtain of Islam? If we once approved the Muslim Brotherhood, we would have violence by them to get power."

The retention of political power by much the same people who have always enjoyed it – when economic reforms have done little to distribute wealth but are threatening redundancies – has prepared the ground for increasing radicalism.

The reaction of farmers will be the next big social test for the government's economic reforms, after privatisation-related redundancy. This will come later this year, with the repeal of laws which freeze land rents and allow tenants on smallholdings to pass the land to their children at fixed rents.

Even government politicians acknowledge that the only debate taking place is within the NDP – although such debate is often extremely vigorous.

"Egypt is in a pre-democratic phase," says one senior government minister. "But the economic discourse does infect the political discourse. There are factors in the system that will lead to political change. Not least the fact that economic success is no longer dependant on access to political power," he says.

As social strains intensify the government will be looking for support from those who have enjoyed the fruits of the soaring stock market. But even that support is far from certain.

Central to the political concerns of the financial community is the influence of company owners whose fortunes derive from the monopolistic practices of the past. Many of them are finding that the political patronage they relied on for much of their success is under an increasingly critical spotlight.

Civilian defiance: Islamic militants being taken to a hearing at a military court. There are 17,000 political detainees Photo: Norbert Schiller

"Egypt isn't a democracy. There's the army and the bureaucracy," says one leading banker. "The government is basically the economic power. The bureaucracy feeds and clothes the largest single sector of the economy. The economic reform programme doesn't lie in a conviction for reform, as not a single one of the bureaucrats has an iota of conviction on one position or another," he says.

For many business people the economic reform remains highly vulnerable to the real power, which lies in the hands of those controlling a largely unreconstructed political arena.

"Even in a successful business you don't have rights," says the director of a family-owned Cairo company. "You have people taking other peoples' property, and the owners can't do anything about it. You can own a piece of land in the desert, and one day you find it's not your's any more.

"We don't like to say what we have and what we haven't got for fear of somebody taking it from us. This is the third world, not Europe. Only the businessmen with political influence are not scared."

Other leading business people view the economic reform programme as simply a reflection of the political knife-edge on which Egypt's leaders have walked.

"It's all driven by the political expediency of the ruler. [President] Mubarak has to keep his foreign protector – the United States – happy. He must also show a great deal of sensitivity to public opinion, which is anti-Israel," says an influential Cairo financier.

"Mubarak can't voice that feeling without offending the Americans. But he can't continue to wallpaper over the situation."

RELIGIONS • by Mark Huband

Tensions come to the fore as grip tightens

Christians are aware that the government must show its Islamic credentials

The isolation by Egypt's security forces of the Islamic militant groups which have claimed responsibility for attacks on tourists since 1992 has further exposed tensions between the country's Muslim and Coptic Christian communities.

The murder of Copts and police officers in Upper Egypt has been a common occurrence for as long as the militant Gama'a al-Islamiya has been active. The curbing of attacks on tourists has left Egyptians as the main targets, with the Copts singled out for their religion and the police for their security role.

The government has been treading a delicate line. On the one hand it has been seen to allow Islamic institutions a greater say in public life, but it has also dismissed or demoted teachers suspected of propagating Islamist views in the classroom.

A draft report on the country's new company law, drawn up by legal experts, was voluntarily passed to Sheikh Al-Azhar, the head of Egypt's Islamic university, for comment. Several of his recommendations, which had no constitutional weight, were adopted.

Prominent Christians are aware that in order to undermine the Islamist organisations the government must introduce measures which demonstrate its own Islamic credentials – at a time when it is being criticised for failing to take decisive action against Israel, the Islamists' chief bogeyman.

Consequently, Copts have complained that their treatment is subject both to the government's policy of confrontation with the Islamists, as well as to their status as a minority in a country where political rights remain firmly controlled by the government.

Several recent statements have polarised opinion. Mr Milad Hanna, a Coptic former parliamentarian, said in a recent article that the government intended to condemn the Coptic community to a lower social status than that of Muslims.

"It's a plot to marginalise them both politically and culturally," Mr Hanna said. "When I say there is not one Coptic (provincial) governor or head of a city council, I really mean that we are second-class citizens, or perhaps third or fourth class."

Mr Hanna, who is respected by both leading Copts and liberal Muslims, made his comments several days after Mr Mustafa Mashhour, the supreme leader of the outlawed Muslim Brotherhood, said that an ancient tax on non-Muslims – the jizya – should be reintroduced, and that Copts could not be trusted to fight loyally if a Christian country attacked Egypt.

"We do not object to Copts being in the People's Asembly. But the principal positions, such as defending the homeland, require that the army of a Muslim state, that protects and propagates Islam, should be made up of Muslims exclusively," he said.

Mr Mashhour later tried to clarify his position in a letter to a newspaper, but was unable to state unequivocally whether the Muslim Brotherhood accepted the Copts as totally loyal to a state which has Islam as the religion of the majority.

Pope Shenouda III, the leader of Egypt's Copts, who has had extensive dialogue with mainstream Muslim leaders in Egypt, has suggested that there is a reversal of the position that Muslims took with regard to the Coptic minority.

"The view is harming Egypt and dividing it along religious lines. The jizya contradicts everything the constitution says about equality for all Egyptians," he said, in response to Mr Mashhour's recent comments.

Pope Shenouda acknowledged during a well-attended public discussion last October that Muslim public opinion was barely sympathetic to the social position of the Copts. This had led to few Copts being elected to parliament, with those who were parliamentarians relying on presidential nomination for their seats.

"The problem is the spirit among common people," Pope Shenouda said. "The (Muslim) fanatics have two activities, or two kinds of work. One of them is aggression, violence, discrimination, when they burn churches. The other is the creation of a very bad spirit in the country. We have built many new churches. But we don't write about them in newspapers, in order not to have a bad reaction among the fanatics."

The government is keen to highlight the fact that in the clashes with militant Islamist groups the largest number of victims are Muslim, not Copt, as most of the attacks are against police officers, and are largely in remote areas away from the tourist centres.

"In Egypt we have only the Egyptian citizen," says Gen Hassan Al-Alfi, the interior minister. "We don't distinguish between Muslims, Copts and Jews. Muslims are more and more the victims. What has happened is that the militants have tried to get between the Christians and Muslims, to give the impression abroad that we distinguish between Muslim and Christian."

While the Islamists have political mouthpieces in the Labour party and the Muslim Brotherhood, there is no Coptic political organisation, and Pope Shenouda has said there is no intention to create one. The political voice of Egypt's Copts is likely to remain unheard, when the Islamisation of mainstream politics is becoming increasingly pronounced.

EFG - Hermes

Arab Republic of Egypt Advisory on Egypt's Sovereign Debt Rating Joint Adviser EFG-Hermes September 1996	Eastern Tobacco Company Secondary Offering of 3,400,000 common shares LE 330,000,000 (US$ 95,058,824) Joint Lead Manager EFG-Hermes March 1997	ABICE Arab Investment Company Egypt Private Placement LE 250,000,000 (US$ 73,529,412) Joint Placement Agent EFG-Hermes February 1997	Egypt Gas Private Placement LE 216,000,000 (US$ 63,529,412) Sole Placement Agent EFG-Hermes February 1997
Housing & Development Bank Private Placement LE 36,000,000 (US$ 10,588,235) Sole Placement Agent EFG-Hermes February 1997	Egyptian British Bank Member of HSBC Group Floating Rate Notes due 2001 LE 100,000,000 (US$ 29,411,765) Sole Offering Manager EFG-Hermes December 1996	Helwan Portland Cement Company Secondary Offering of 5,500,000 common shares LE 376,000,000 (US$ 110,588,235) Joint Lead Manager EFG-Hermes November 1996	American Express Bank Floating Rate Notes due 2001 LE 300,000,000 (US$ 88,235,295) Sole Offering Manager EFG-Hermes September 1996
CHLORIDE Chloride Group Plc. Sell Side Advisory on the sale of 46,800 common shares representing 52% of Chloride Egypt for an undisclosed amount Sole Sell Side Adviser EFG-Hermes August 1996	EAB Egyptian American Bank Initial Public Offering of 2,000,000 common shares LE 120,000,000 (US$ 35,294,118) Sole Offering Manager EFG-Hermes July 1996	(EL MACO) El Nasr Transformers & Electrical Products Co. Sell Side Advisory on the Strategic Sale of 7,097,839 common shares LE 127,761,102 (US$ 37,576,765) Co - Sell Side Adviser EFG-Hermes June 1996	Amriyah Cement Company Secondary Offering of 2,500,000 common shares L.E. 115,000,000 (US$ 33,823,529) Joint Lead Manager EFG-Hermes June 1996
Nasr City Housing and Development Company Initial Public Offering of 3,000,000 common shares LE 195,000,000 (US$ 57,352,941) Joint Lead Manager EFG-Hermes May 1996	Helwan Portland Cement Company Initial Public Offering of 5,180,000 common shares LE 176,000,000 (US$ 51,764,706) Joint Lead Manager EFG-Hermes November 1995	Eastern Tobacco Company Initial Public Offering of 5,000,000 common shares LE 200,000,000 (US$ 58,823,529) Joint Lead Manager EFG-Hermes June 1995	Tourah Portland Cement Company Secondary Offering of 1,900,000 common shares LE 82,000,000 (US$ 24,117,647) Lead Manager EFG-Hermes May 1995

Investment Banking
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FOREIGN POLICY • by David Gardner

Israel relations are set back 20 years

Cairo has been pivotal in search for peace; it hopes its message is still being read

Egypt's leading pro-government daily newspaper, Al-Ahram, last month published a map of the Middle East which replaced the state of Israel with the pre-1948 land of Palestine. In doing so it was not reflecting government policy, but rather the public mood to which the Egyptian government, like its Arab neighbours, has had to bend in its dealings with Israel.

Since the election last May of Mr Benjamin Netanyahu as Israel's prime minister at the head of a coalition of extreme right-wing nationalists and religious fundamentalists, Egypt's foreign policy, which had begun turning its attention towards modernising the Egyptian economy, has become reabsorbed in the Arab-Israeli conflict.

In the process, its relations with Israel, with which it became the first Arab country to make peace in 1979, have started to unravel. President Hosni Mubarak said recently that relations were now where they were before President Anwar Sadat, his assassinated predecessor, made his dramatic trip to Jerusalem in 1977, opening the way to peace.

The immediate cause is Mr Netanyahu's move to seal off occupied Arab east Jerusalem from the Palestinian West Bank by building the new Jewish settlement of Har Homa at Jabal Abu Ghneim in south-east Jerusalem. Egypt and the Arabs see this as a dangerous violation of the 1993 Oslo peace framework agreed between Israel and the Palestine Liberation Organisation.

This framework turned into an "interim" agreement, finalised at Taba in Egypt in 1995, for the return of most of the occupied West Bank to Palestinian self-rule, with the disputed status of Jerusalem, the future of Jewish settlements in the West Bank and Gaza, final borders and the right of return of over 4m Palestinian refugees left to "final status" negotiations.

Those opened a year ago in Taba. But after Mr Netanyahu's election on a platform rejecting the "land-for-peace" formula underpinning the Middle East peace process, there has been minimal advance on the interim agreement and none on final status. Har Homa, moreover, by building the final rampart in the wall of settlements enclosing Arab Jerusalem, forecloses any negotiation on the Holy City, sacred to Arabs and Moslems as the third shrine of Islam.

"If there is no [Israeli] redeployment [from the West Bank] and they continue the policy of settlements," says Mr Amr Moussa, Egypt's foreign minister, then "what is there to negotiate?"

Mr Moussa was speaking last month just after the 22-nation Arab League decided in Cairo to start rolling back the diplomatic and commercial ties developed with Israel during the peace process. The objective, he and his colleagues say, is to send a message to the Israeli people that their future in the region will not be secure as long as their government continues to colonise land conquered from the Arabs in the 1967 six-day war.

Just as important, the freeze on "normalisation" with Israel is the minimum that Arab governments feel they must do to prevent the crisis over Jerusalem from handing the initiative to Islamic fundamentalists throughout the region.

"In Jerusalem they are playing around with religion, and when you play with religion in this part of the world, you're playing with something outside everybody's control," a senior Arab diplomat warns.

The Arab response to the deadlock was framed after the US vetoed two resolutions in the UN Security Council condemning Har Homa. But it flows from the warning last June, at the Arab summit in Cairo shortly after Mr Netanyahu's election, that "normalisation" would stop unless the land-for-peace bargain made by his Labour predecessors was honoured.

Syria, which had come close to securing the return of the Golan Heights in its peace negotiations with the Labour-led coalition, wanted an immediate freeze but was restrained by Egypt and Jordan.

Mr Netanyahu's intentions "were clear to us as soon as he assumed office," says Mr Moussa, who co-ordinated that summit, "but President Mubarak wanted to give him a chance, and to talk to him."

Amr Moussa warns on settlements in east Jerusalem – where the Temple Mount, one of Islam's holiest sites, attracts thousands of worshippers – and the West Bank,

Mr Mubarak and King Hussein of Jordan have recently said publicly that they have had enough of the Israeli leader's practice of promising them one thing and doing another. "I would like to believe him [Mr Netanyahu] at least once," the Egyptian president told an Israeli newspaper last month.

The remarks, as well as the roll-back in relations, are aimed at Israeli public opinion. Polls continue to show that a majority of Israelis want a peace settlement with the Palestinians, as well as with Syria, with which Israel is fighting an increasingly costly proxy war in southern Lebanon against Hizbollah, a Syrian and Iranian-backed Islamist militia fighting Israeli occupation.

Mr Netanyahu told Israelis that a tougher stance towards the Arabs would bring peace and security, says Mr Osama el-Baz, President Mubarak's chief political adviser, "but he hasn't delivered either".

"The question is whether Netanyahu can afford to appear in the eyes of his own people as the one who undermined the peace process. We believe that if this reaches deadlock, Israel will face an internal crisis," and "the Israeli people will begin seriously to worry about the future of their state in the region and what will ensue." Mr el-Baz believes Israelis will push for new elections before the situation becomes irretrievable.

The second target of the Arab message is Washington. Egypt regards US mediation as vital to the eventual success of the peace process, but increasingly sees the Clinton administration as biased towards its Israeli ally, particularly after the Security Council vetoes. "There is a loss of prestige and there is a loss of confidence [in the] credibility of the US as honest broker," says Mr el-Baz. "If matters continue like this, they [the Americans] will lose irreparably."

Egypt, along with pro-American Jordan and Saudi Arabia, is urging Washington to recognise that its interests in the Middle East are diverging from those of Mr Netanyahu's Israel, and that its lack of even-handedness is dangerously exposing its Arab allies. "Unless the Americans make clear to [Mr Netanyahu] that he has crossed the line for the last time then, even with a freeze on Har Homa, this will still blow up in all our faces," one senior official warns.

If the deadlock over Har Homa continues, Egypt and Jordan, the two Arab countries with full peace treaties with Israel, could come under pressure to sever diplomatic ties altogether (Egypt recalled its ambassador from Israel for a period in 1982 after Israel's invasion of Lebanon). Syria, for instance, might push for a tougher response. Prudence is the watchword of the moment, however. Mr el-Baz says: "The majority goes for controlled and calculated steps", with every measure calibrated for its practical effect.

Egypt expects the next step from Washington, which is working on a new bridging formula to restart negotiations. Mr Moussa argues that this must include some form of *de facto* freeze on Har Homa, and Israel's commitment to cease building settlements and to redeploy its forces from the West Bank.

"If this formula doesn't command the support of everybody in the region from minute one, then we are in very serious problems," he warns. But until then, "we are keeping the door ajar and hoping that our message is being read".

RELATIONS WITH EUROPE • by David Gardner

'Partnership' falls well short of expectations

Egypt's agricultural ambitions are being frustrated by tight quotas to protect EU member-states

Ambassador Gamal Bayoumi used to be in charge of the Israel desk at Egypt's foreign ministry, a job which must now seem easy in comparison to negotiating, potato by potato, with the European Union.

Egypt was poised to clinch a "partnership" agreement with the EU as this Survey was being completed, but it is a partnership falling well short of the expectations the Europeans had encouraged, which sharply limits access to Egyptian farm and processed food exports – the one area in which Egypt has a clear comparative advantage.

The deal falls within the EU's Euro-Med programme to create a free trade area with 12 south and east Mediterranean countries by 2010, backed up by Ecu4.7bn in grants and about Ecu5bn in soft loans in 1995-99 to help its partners on the southern shore upgrade their industry and infrastructure.

"Partnership" is analogous to the "association" agreements reached with the former Soviet satellites of eastern Europe but without the prospect of EU membership – except for Cyprus and Malta, with Turkey and its customs union with the EU in its own halfway house. Tunisia, Morocco and Israel reached such deals in 1995, Jordan initialled its agreement last month, and Egypt – which had hoped to sign in April – was awaiting an elusive consensus of EU agriculture ministers.

These bilateral deals give the partners free access to the European single market for their merchandise goods and phase in over 12 years lower tariffs on EU goods coming back. Agricultural exports to the EU, by contrast, are being subject to tight quotas, in spite of EU assurances that these would be generous.

Egypt's vegetables, potatoes, oranges, rice and cut flowers are all being blocked by member-states which either produce them or have supply arrangements with others which do. Egyptian negotiators looked at the initial EU offer on oranges, for instance, and worked out it would take them 97 years to reach the quota they had proposed.

"I need one Europe to talk to," says Mr Bayoumi. He complains that "it doesn't matter how much wheat we import from Europe – and we are its second largest export market – so long as the subject is potatoes. There is no equilibrium".

Albeit that the main purpose of the agreement is to prepare industry for international competition, agriculture accounts for 21 per cent of Egyptian GDP and 35 per cent of its workforce. Egypt's maximalist position, since trimmed sharply, was to generate $1bn to $1.5bn a year in farm exports using only 5 per cent of its arable land to supply a mere 1 per cent of EU imports and 0.5 per cent of its overall consumption.

"A fair criterion should be based on two things: Egypt's capacity to produce and the EU's capacity to absorb," Mr Bayoumi says.

The EU, moreover, had initially tried to tie quotas to "traditional flows of trade" dated to its last agreement with Egypt in 1977, when 68 per cent of Egypt's trade was with the Soviet bloc and its exports were minimal. Egypt now conducts half its trade with the EU. In 1995, the last year for which complete figures are available, Egypt exported $1.6bn to and imported $4.5bn from the EU. In farm trade, exports to the EU were a mere $153m against $838m in imports.

Egypt, however, believes that once even minimal entry is achieved it can be built on. And there are other advantages from Euro-Med for a country determined to modernise its economy and pursue export-led growth. Apart from a still-to-be-determined allocation of restructuring aid, Euro-Med points not only to free trade with the EU but greater economic integration within the Arab world, which does only 7 per cent of its trade intra-regionally.

The strategy uses the bilateral deals as building blocks for regional integration, rewarding with greater access those partners who do free trade deals among themselves, remove barriers to investment, and take advantage of cumulative rules of origin by using each other's materials in their exports. Or such is the theory.

Egyptian ministers believe the practice is more Euro-centric, aimed at conquering south Mediterranean markets. "The rules of origin are such as to protect those on the northern shore," says Mr Youssef Boutros Ghali, minister of state for the economy. Yet he acknowledges that "the techniques" of Europe's economic integration are having a contagious effect on the Arab world, and that tying all the partners into phased tariff reductions will open their economies outwards and stimulate their access to each other.

Egypt is committed to reducing the current maximum tariff of 55 per cent to 40 per cent by July 1998. But the Euro-Med deal would lock in further reductions over 12 years. The tariff cuts would be "back-loaded" – raw materials first, then capital goods, and finished goods only at the end.

As an earnest of its intent, Egypt itself is seeking adjustments to ensure this phasing does not *increase* the effective rate of protection of its manufacturers by cheapening inputs. In practice, moreover, the 12-year transition is likely to be faster. But that does not mean Egypt will be a soft touch.

As Mr Bayoumi sums it up: "We are not asking for charity. We are a huge market of 60m people, and if you want to defend your place in it then you have to help us."

STOCK EXCHANGE • by David Gardner

An aspiring market leader

'The issue is not a shortage of funds but a lack of investment vehicles'

Mr Youssef Boutros Ghali, the ebullient minister of state for the economy and an accomplished salesman of Egypt's reform process, has an ambition "to make Cairo the financial centre of the Middle East, not Beirut, not Bahrain, here".

Such a notion would have seemed fanciful in the extreme a year ago. Even now, after 15 months when the Cairo stock exchange (CSE) has seen capitalisation double and turnover triple, it takes a hard swallow to consider the prospect seriously.

But the CSE is not only becoming the most promising market in the region, it is beginning to command attention among professional investors in emerging markets.

The government's decision to pursue privatisation was the main stimulus to the market's rise last year – capitalisation jumped from E£27.4bn to E£48.1bn and annual turnover rose from E£3.8bn in 1995 to E£10.8bn. The market now has about 1m investors, compared with about 25,000 three years ago.

But the real leap started a year ago when the government for the first time offered the majority of shares in a public sector enterprise, the Nasr City Housing real estate company, through the market. A dozen further majority stakes were sold by year-end, propelling the CSE index up 72 per cent. The bull market had an added fillip in January when Standard & Poor's gave Egypt an investment grade rating.

The Cairo exchange has seen market capitalisation double in the past 15 months Photo: Norbert Schiller

A correction in mid-February – by when the market had risen a further 40 per cent – was greeted by fund managers as a welcome sign of growing maturity. Average price/earnings ratios had doubled to more than 15 in eight months.

Then, as foreigners led the way in unwinding their positions, a much improved settlements system enabled investors to sell and take back about a third of January and February's rise. A landmark had been passed.

Yet the CSE now approaches a new set of hurdles as Egypt strives to establish its bona fides as an emerging market.

Last year's privatisations were of easily saleable companies. Much of what is left is in the form of viable units within unsaleable groups, or dubious companies with saleable product lines, none of it easy to unscramble. A new, probably slower phase of privatisation is on the cards, with the government looking for "anchor" investors to bring in technology and skills to turn these companies around.

This should be a positive departure. Ultimately, the success of Egypt's turn towards the international market economy has to be "anchored" by foreign (and domestic) direct investment following on the heels of portfolio investment.

The IMF expects foreign investment in the CSE and Treasury bills in the 1996-97 fiscal year ending June 30 to be $1.3bn – compared with barely $50m in 1995-96 – but foreign direct investment (FDI) to be about $800m, compared with less than $600m last year.

Direct sales of state assets should raise direct investment, but at the cost of limiting offerings through the market. Investors in the CSE will probably have to wait a year or two before the authorities devise a regulatory environment in which to contemplate selling off "crown jewels" which are not part of the present exercise, such as the utilities and the big commercial banks in which the state is the majority shareholder.

The question is how to get from here to there, within the strategy of getting economic growth above 7 per cent a year by 2000. That requires savings and investment rates about 10 percentage points above last year's 17 per cent of GDP – a level about half that of the Asian "tigers". The post-Nasr City Housing investment boomlet has so far added a mere 1 percentage point.

But Mr Hassan Heikal at EFG-Hermes, Egypt's leading investment bank, says: "The issue is not a shortage of funds but a lack of investment vehicles." He warns of the risk of a bubble if high demand coincides with limited supply. He and other investment bankers and brokers point to about $50bn of private deposits in Egyptian banks when interest rates are falling; rising workers' remittances and repatriated capital; growing interest by Gulf investors; and the expected arrival of international fund managers with buy orders equivalent to current trading volumes.

Foreign and domestic strategists are watching for a rise in p/e ratios not justified by growth in earnings. At the moment, if p/e ratios are deflated by growth, then Egypt is nearer to the cheaper emerging markets such as Poland, Mexico and India than to Hungary, Argentina and South Africa.

But there are enough reasons to suggest the CSE will continue playing an important role in enlarging the savings and investment pie.

First, Egypt's closely-held private companies, until recently almost a clandestine movement, are beginning to see equity as an

Continued on Page 6

PROFILE EFG-Hermes

Pillars provide sound support

In the Cairo headquarters of EFG-Hermes are to be found stock certificates of Alexandrian flour mills dating from 1899, as well as yellowing shares in the Suez Canal. Mr Aladdin Saba, director of asset management at Egypt's leading merchant bank and securities brokerage, says: "The day we have a new Suez Canal issue, I know Egypt will have arrived."

The nationalisation of the strategic waterway in 1956 was a defining moment in Egypt's modern history, and its sale to the public is not on the most futuristic agenda. But merely mentioning such a possibility is an index both of the febrile atmosphere in Egypt's newly-emerging market and of the ambition of EFG-Hermes.

Born in June 1996 of the merger between the Egyptian Financial Group and Hermes Financial, the firm was in at the start of the bull market unleashed by privatisation. EFG was the older unit, starting life as a financial consultancy, while Hermes was set up by a group of Egyptian returnees from foreign houses like Kidder Peabody and Goldman Sachs.

The merged firm is unique in Egypt in basing itself on the three pillars of investment banking, securities broking and asset management, enabling the 18 partners to focus on their own specialities.

EFG-Hermes now has more than 220 people, compared with the 27 they together employed in 1994, mirroring the giddy rise of the Cairo stock market.

Beyond specialisation, the logic of the merger was to obtain critical mass. "We decided we couldn't grow as quickly as the market in competition with each other, so we should ally to prepare for foreign competition," Mr Saba says, "otherwise we were going to get crushed."

As things stand, EFG-Hermes has the largest market share in equities trading, privatisation issues, debt issues and bonds placement. It manages four of the top five mutual funds, including one of the first offshore funds.

As well as public offerings, it has advised on the valuation and restructuring of state assets for strategic sales. With Arab Bank, it has recently set up an investment company to concentrate on non-listed securities. And it is at the forefront of the newest development in the market – taking closely-held private companies public.

But as the market deepens and expands, the critical mass argument ostensibly resolved by last year's merger is back on the table. Ministers say there are currently three international firms looking to set up joint ventures in Cairo, with others looking to set up on their own, following the lead of HSBC James Capel. Speculation centres on Barings, Flemings, UBS and possibly Lazard Freres.

Mr Saba acknowledges EFG-Hermes has been "approached by quite a few" houses about a joint venture, but says the answer has been "not right now."

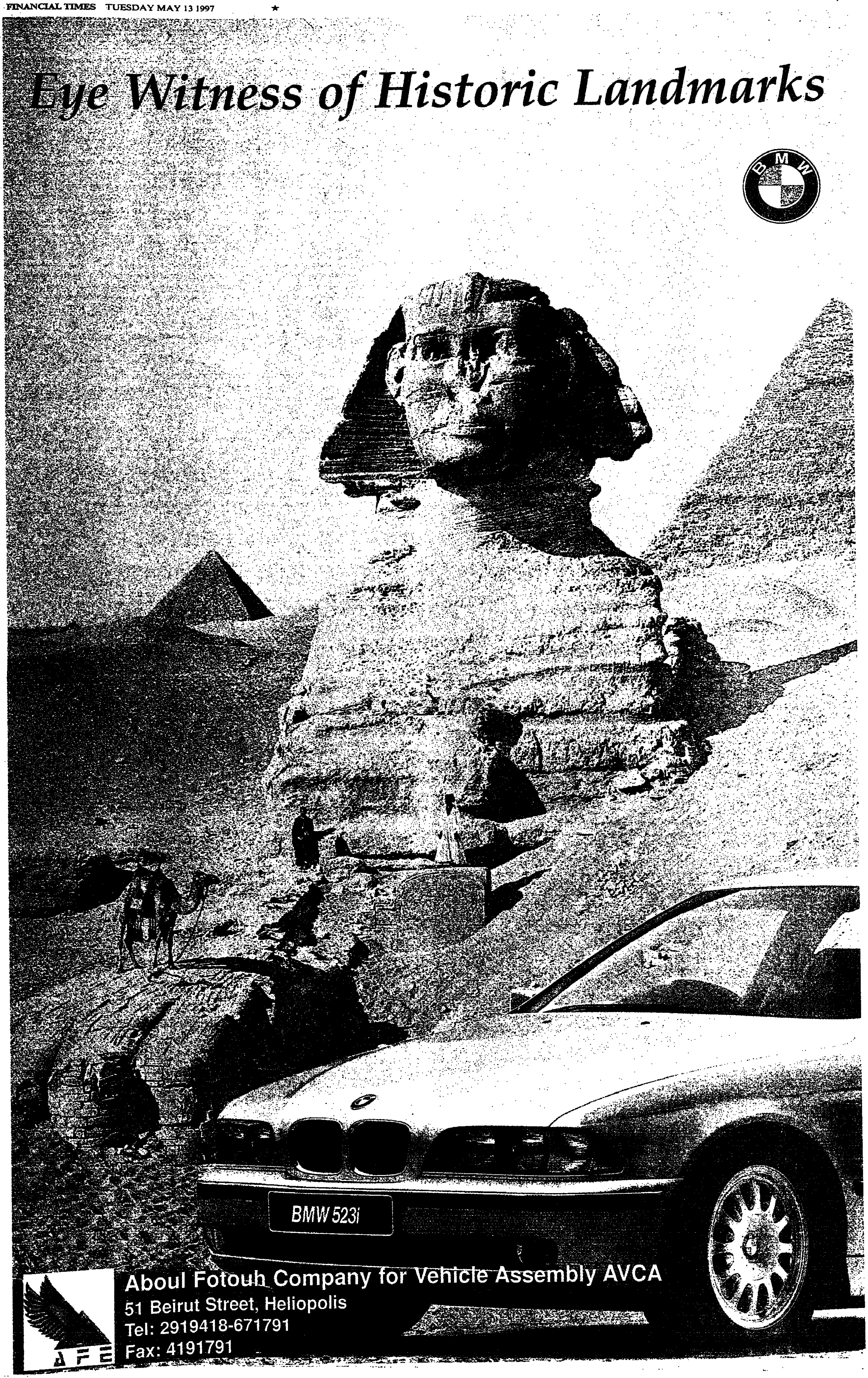
The question, he says, is "whether the next step is a strategic partner or a new level of growth." He points to a strong client base in Egypt as well as among high net worth investors from the Gulf.

"I think the main pillar is our distribution network," Mr Saba says. "That is what gives you a strong investment bank."

Yet there may come a point at which EFG-Hermes needs an international network, while a putative strategic partner wanting to enter Egypt would be able to tap into the analytical strength of EFG-Hermes' research department, one of the few such units looking beyond current price/earnings ratios and dividends to identify future earnings and growth potential.

But any future links the firm may establish need not necessarily be with an international investment bank, but with "a home-grown one," Mr Saba cautions with a teasing lack of elucidation.

David Gardner


Eye Witness of Historic Landmarks
BMW
BMW 523i
Aboul Fotouh Company for Vehicle Assembly AVCA
51 Beirut Street, Heliopolis
Tel: 2919418-671791
Fax: 4191791
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BANKING • by Krishna Guha

Stake sales are highly symbolic

Reform has been a priority – and advanced further than in almost any other sector

Egypt will this year take the unprecedented step of selling the first tranche of shares in one of the country's four giant public sector banks.

The move is highly symbolic – even though it is only a step on the road to fully privatising all four banks. The public banks have dominated the sector since the days of Nasser, and their interests extend to every corner of the economy.

Bank of Alexandria is the most likely candidate for a partial-privatisation before the end of this year, but the government at present appears to have no plans to privatise the other three state-owned banks.

This milestone is only the latest stage in Egypt's banking revolution. From the very start of the economic and structural reform programme in 1991 banking reform has been a government priority – and the process of change has advanced further than in almost any other sector.

Mr Faika El Rafaie, sub-governor of the central bank, reels off a list of reforms: exchange controls have been abolished and company credit ceilings scrapped; banks are free to set fees and the deposit rates paid to savers; foreign banks can now fully-own local subsidiaries; the government sets interest rates in the market through a weekly treasury bill auction; banks are required to meet stiff capital adequacy standards set by the International Basle Committee.

Only six years ago banks were told what to pay to savers and, in many cases, what to charge customers. Companies were told how much they could borrow and, if they were in the public sector, from whom. Both were told when they could deal in Egyptian pounds and when in dollars.

Egypt has 67 banks – the majority of them private and foreign joint ventures, allowed to operate in Egypt since the late President Sadat's open door policy of the 1970s. Some have the legal status of "investment" banks, but offer retail savings and loans.

Most are tiny. The giant state banks account for almost 70 per cent of all assets and deposits. Dr Salwa El-Antary, head of research at National Bank of Egypt (NBE), says: "Their market share has fallen, but it is still a semi-oligopoly."

Further, the biggest and most dynamic private sector banks were effectively owned by public sector parent companies. Banque Misr was the biggest shareholder in Misr International (MIBank); and NBE in Commercial International (CIB).

Last year the government ordered the big public sector banks to cut their holdings in other domestic banks to 50 per cent – a key element of the privatisation programme. They have since been told to cut their stakes to 20 per cent or less.

"By the end of the year it will probably be zero," says Mr Mohamed Younes, chairman of Concord International Investments. This rapid divestment is creating a truly independent viable private sector for the first time.

In some cases, changing ownership has brought better management. A new team at Egypt Gulf Bank, formerly controlled by Banque du Caire, installed a new computer system, set up the bank's first marketing department, and speeded credit authorisation by scrapping old credit committees.

Divorce holds risks for both parties. The big state banks lose their efficient and agile subsidiaries. More seriously, the private sector banks could lose their indulgent parents' funds, corporate contacts and influence.

Foreign banks, such as Barclays and Société Générale, have slowly prepared to take full ownership of their local joint ventures, but most foreign operators want to retain a strong local partner and show no great enthusiasm for 100 per cent ownership.

Liberalisation and privatisation has born fruit. The total assets of all banks have grown steadily from E£103bn in 1989 to E£274bn last year. Deposits and lending have both grown strongly.

Savers have switched from safe-haven dollar accounts to accounts denominated in Egyptian pounds, which pay higher interest. In 1990, dollar deposits accounted for half of savings. Now local currency deposits account for three-quarters of savings, and low interest dollar loans are in fashion.

Meanwhile, the banking sector as a whole has become more sound. Paid up capital rose sharply and has stabilised at about 3.3 per cent – 50 per cent higher than in 1989. The average capital adequacy ratio is 10.5 per cent, compared with the 8 per cent Basle minimum.

All is not rosy, however. High interest rates since 1991 generated a wave of deposits that was not matched by demand for corporate loans. "There was nearly a depression," says Dr El-Antary. "There were very few good businesses to lend to."

Fierce competition devastated bank lending margins. National Bank of Egypt lent to some prized customers at the central bank discount rate – "with no margin at all" – she says.

From 1989 to 1993 Egyptian banks' lending as a proportion of deposits fell from 70 per cent to 51 per cent. Since then it has recovered to 75 per cent. But by international standards it is still low. Loans make up barely half of Egyptian bank assets.

Banks diversified into consumer lending, which increased fivefold from 1992 to 1995. There has been an explosion in home and car loans, with a big expansion of credit cards. Worryingly, there is also evidence that some consumers borrow to buy shares.

At the same time Egypt's banks have scrambled to capture a share of the booming capital market – setting up investment banking subsidiaries, mutual funds, advisory, custodial and settlement services.

The big four public banks dominate the mutual fund sector with two-thirds of all funds by capitalisation. The first fund was launched by National Bank of Egypt, the biggest by Banque Misr.

"Lots of banks have set up investment arms for fee income purposes," says Mr Mohamed Barakat, managing director of Egyptian Gulf Bank. "But mainly for their existing corporate clients." Fees and the volume of business are still too low to sustain a big investment banking sector.

Many banks face big problems in their core commercial banking activities. While lending has picked up there is a huge mountain of bad debt accumulated over three decades. How big, not even the central bank knows. Bad debt estimates range from 5 per cent to 30 per cent of public bank loans.

Dr Mahmoud Mohieldin, a government adviser, says 30 per cent is an overestimate but, he admits, "public sector companies owe a lot of money, and some have defaulted in the past".

Many of the small private banks are rickety, inefficient and undercapitalised. Capital adequacy averages 10.5 per cent, only due to the weight of the bigger, better run banks. A number of banks probably fail the Basle minimum of 8 per cent – though their accounts are so bad it is impossible to tell.

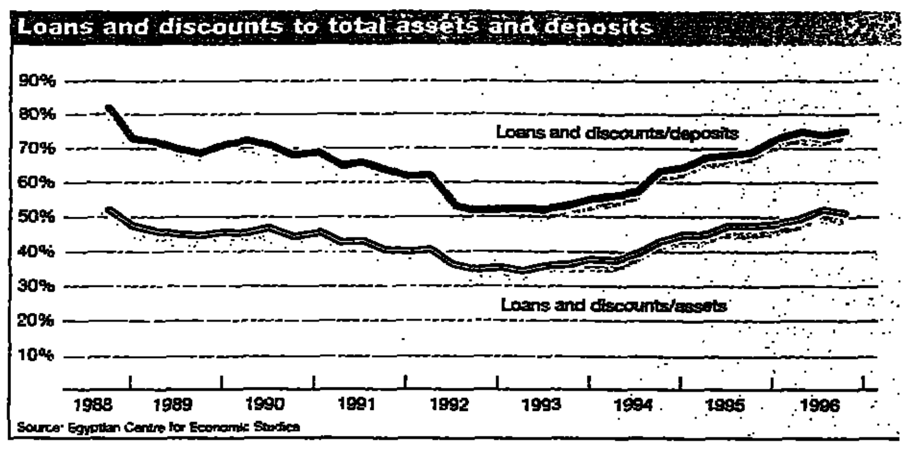
Some rely on one or two wealthy industrial families for business – in breach of regulations governing client exposure. Implementation is patchy. The government is investigating two banks for breach of exposure rules and other malpractice.

"Consolidation is the answer," says Dr Mohieldin. But there is little sign that this is imminent. The government has guaranteed that no licensed bank will be allowed to fail, and a hostile takeover is unimaginable. Any mergers will be marriages arranged by the central bank.

And although the number of bank branches in Egypt grew from 1,231 in June 1989 to 2,267 in June 1996 – enabling the huge mobilisation of savings – almost all branch licences have been awarded to the big four public banks and the state agricultural banks.

Outside downtown Cairo and central Alexandria competition hardly exists. If the current licence regime continues, privatising the public banks will only create private monopolies in large areas of the country.

Loans and discounts to total assets and deposits



Source: Egyptian Centre for Economic Studies

Banks' aggregate balance sheet

	E£ (bn)
Dec 1989	104.7
Jun 1990	115.9
Dec 1990	133.1
Jun 1991	156.3
Dec 1991	165.1
Jun 1992	174.9
Dec 1992	188.8
Jun 1993	198.3
Dec 1993	206.0
Jun 1994	211.2
Dec 1994	226.4
Jun 1995	236.7
Dec 1995	252.3
Mar 1996	259.8
Jun 1996	261.1
Sep 1996	274.3

Source: Egyptian Centre for Economic Studies

PROFILE National Bank of Egypt

Giant views its future with equanimity

National Bank of Egypt (NBE), the biggest of the public sector giants, and a candidate for part-privatisation later this year, can afford to view the future with equanimity.

With assets of E£56bn and deposits of more than E£41bn it dwarfs the biggest private sector banks. National Bank of Egypt has one of the two biggest branch networks in Egypt, reaching into regions of the country untouched by most of its competitors.

The only comparable institution is Banque Misr, one of its three public sector peers, tipped by some to beat National Bank of Egypt to the stock market.

One of the four specialist banks which flourished during Nasser's presidency, National Bank of Egypt put down roots deep into Egypt's economy. It has interests in an extraordinarily wide swathe of companies.

National Bank of Egypt once held big stakes in a web of notionally private sector joint venture banks. Under instructions from the government it has been cutting its shareholdings to less than 20 per cent. This includes a small stake in Commercial International Bank, the biggest bank quoted on the stock market.

As late as June 1993 NBE held a controlling interest of 43 per cent – as well as interests in nine other domestic banks.

Being forced to wind down its stake in Commercial International is a blow to NBE but one it can easily absorb.

"Divestment is going on and will continue," says Dr Salwa El-Antary, head of research at NBE. "But it only affects banking subsidiaries of the public sector banks listed in the privatisation Law 203."

National Bank of Egypt has direct equity stakes in 69 other companies. These cover almost every sector of the Egyptian economy – including tourism, industry, agriculture, housing, construction and financial services.

The bank does not fear greater competition from privatised Egyptian banks and fully owned foreign banks. Dr El-Antary points out that there has been competition since the open door policies of the 1970s.

"It is nothing new – by law Commercial International Bank was a private company and a competitor (from the start)," she says. "There was always a separation between ownership and management."

There is an element of hubris here. But National Bank of Egypt has enjoyed privileged access to funds, technology and the cream of Egypt's universities for decades. It is often at the forefront of innovation – for instance, introducing currency exchange cash machines in Cairo hotels.

National Bank of Egypt is a big operator on the stock market. It launched Egypt's first mutual fund, with E£100m capital, and its first income fund, capitalised at E£200m, through a fund management subsidiary.

In addition to the two domestic funds, NBE has three international funds. "We work with partners such as Morgan Stanley and Lazards," says Dr El-Antary. NBE will soon launch its fourth such fund.

The bank has set up brokerage companies, settlement companies and custodian activities. Dr El-Antary says the next step is venture capital.

"Egypt needs venture capital to back up an ailing company, help it to convert its financial structure to make it more profitable," she says. "Why not include some of the companies that are being privatised?"

Dr El-Antary says that plans to privatise the big public sector giants remain "controversial". She appears less than enthusiastic, but she does not believe that NBE will be greatly affected if it is chosen to be the first to start the long march to the market.

"Nobody knows what bank will be chosen or what method," she says. "It could be an increase of capital effected through an initial public offering so nothing is sold but the private sector is let in."

The public offering of a single tranche of shares will not alter NBE. If the bank is fully privatised, and jarred into outright competition, it will be a fearsome competitor.

"I would not like to be chairman of a medium-sized investment bank trying to compete with a privatised National Bank of Egypt or Bank Misr," one banking analyst says.

The independent banking sector is not, therefore, pushing too hard for NBE to be fully privatised. Neither are Dr El-Antary and her colleagues. Complete privatisation may take place – but it is still some way away, and by no means certain.

Krishna Guha

An aspiring leader

Continued from Page 4

alternative to bank loans.

In January, the privately-held Olympic Group sold 17 per cent of the shares in its Cairo Precision Industries subsidiary, the leading producer of boilers, gas and electrical appliances. The issue was 11.4 times subscribed, in what could prove a turning point in transforming Egypt's capital market into a tool for growth.

Olympic is planning to float all 12 of its subsidiaries and create three new ones, while rumours abound in the market that private textiles, electronics, tourism and real estate groups are about to go public.

Second, the sale of extra tranches in partly-privatised companies, leading gradually to private management, could bring significant profit increases, not just by improving productivity but by releasing "hidden assets".

Egypt has yet to introduce inflation accounting or the revaluation of assets such as land. Blakeney Management, one of the first emerging markets specialists in Egypt, quips in it latest memo to shareholders that an Egyptian Jack Welch or Lord Hanson could triple the profits of most public sector companies just by calling in an accountant.

For these reasons the market needs not only liquidity, but much more transparency and carefull regulation. The publication of stock indices and the requirement to publish quarterly results are recent developments.

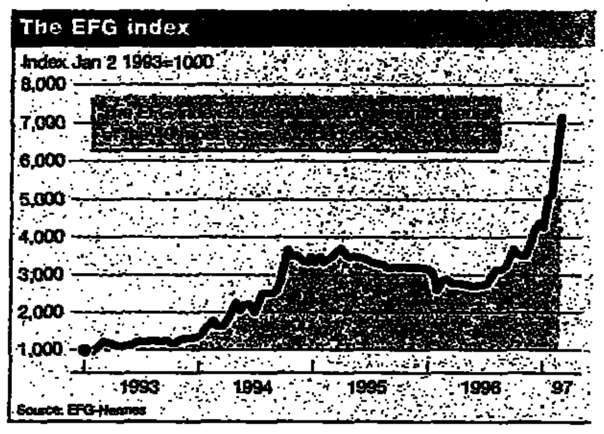
Less than one-tenth of the CSE's 646 companies trade actively, and the CMA is trying to delist companies listed purely for tax reasons.

Mr Ashraf Shams El-Din, the CMA deputy chairman, says that bank lending to buy stocks is "becoming a very common practice that has to be monitored".

He acknowledges the need for increased surveillance against insider trading, adding that the lack of private sector exposure to the market means "we are constantly trying to impress on people that information should be made available at the proper time".

Mr Boutros Ghali acknowledges that Egypt's capital markets need work to "bring them fully into the 20th century, not the 21st – we have to catch up".

The EFG index



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ENERGY • by Robin Allen

Oil exports still the main earner

Development of gas exports is slowed by complexity and costs

Public euphoria over Egypt's gas potential has abated in the past two years as the realisation has set in that while natural gas may be Egypt's energy and revenue source of the future, to harness it requires time and investment.

Crude oil production, on the other hand, continues to guarantee the inflow of hard currency, and new exploration and production techniques mean that recoverable oil sources are by no means exhausted.

Oil exports were worth more than $1.6bn in the fiscal year to the end of last June, a figure which is unlikely to change much this year thanks to buoyant oil prices and sustained levels of production.

Dr Hamdi El-Banbi, the oil minister says Egypt is now producing 880,000 barrels a day (b/d) of oil and some 1.6m cubic feet a day (c/f/d) of natural gas. Although *industry sources say oil production* is slightly less, it is still higher than 10 years ago when Egypt started liberalising its concession agreements. Known reserves have doubled in this time.

Most oil company executives discount the possibility of recent new finds more than compensating for the decline of production in older fields. However, Dr Wafik Meshref, until *recently vice-chairman for* agreements at the Egyptian General Petroleum Corporation (EGPC) and now consultant to Dr El-Banbi and two oil companies, Pennzoil and Belayim Petroleum (Petrobel), says: "I think Egypt will manage 1m b/d and even surpass that within two to three years.

"Companies *signing* concession agreements take five years to get into active *exploration and production*. Agreements signed in the last few years have opened up all 24 of the country's oil basins, and whereas up to now production areas have been confined to the Gulf of Suez and a small area in the Western Desert, advanced exploration and production methods are opening up new possibilities."

The US's Pennzoil, with three independent newcomers – *Apache Corporation*, Phoenix Oil and Seagull Energy – and Spain's Repsol, are examples of companies which are bringing different techniques to look at areas and at depths previously thought to have no interest. Dr Meshref says: "One example [last month] is where Repsol drilled in the south Nile basin east of Aswan and Kom Ombo. At depths of 5,000 to 5,300 feet there are three groups of sand bodies with oil plays and gasses up to C5 (methane, propane, butane and pentane)."

Another example, also last month, is Houston-based Apache's strike in the Qarun concession area of the Western Desert which it part-shares with Seagull. This is another area which is being re-explored. Within the past five years Apache has become the second-largest foreign acreage holder in the country, *after acquiring* nearly 8m acres from Mobil Exploration Egypt.

Amoco Egypt Oil Company (AEOC), however, through Gulf of Suez Petroleum Company (Gupco) – its joint venture with EGPC – remains by far the largest oil producer at some 360,000 b/d, together with 90m c/f/d of associated gas out of the country's total of 300m c/f/d. Mr Robert Sheppard, AEOC *president, says Gupco's oil* production is falling by 4 per cent to 6 per cent a year and *AEOC's main exploration* effort since 1992 has been for gas in the delta with Agip's International Egyptian Oil Company (IEOC), part of Italy's ENI group.

Here, in the prolific gas-fields of Temsah, East Delta Deep Marine, Ras el-Barr and Baltim, the two companies are starting a $1bn *development programme* which is expected to yield 1bn c/f/d of gas by 2000.

IEOC, which is the country's leading gas producer, with some 525m c/f/d, is also its second-largest producer of crude (290,000 b/d) through Petrobel, its joint venture with EGPC. Suez Oil Company, a joint EGPC venture with Repsol and Deminex, produces some 90,000 b/d, with 15 other companies *and joint-ventures, notably* Repsol and Apache in their respective Khalda and *Qarun concessions* in the Western Desert, making up the balance.

Egypt's seven state-owned refineries can process only some 60 per cent of crude production. The balance of Egypt's soaring domestic demand for oil products has to be met by imports. New refineries at Alexandria and Suez are in different stages of planning, while a small expansion is being studied at a third refinery at Assyut, south of Cairo.

It is the first of these, the *proposed $1.3bn, 100,000 b/d* refinery to be built at Alexandria by Middle East Oil Refinery (Midor), on which attention has focused in the past three years. Construction has taken the back seat while shareholdings have been restructured.

Midor's capital has been increased to $360m, with EGPC owning or controlling 60 per cent. The shares held by Egypt's Hussein K. Salem Group and Israel's Merhav group have each been halved to 20 per cent. Mr Sameh Fahmy has moved from being EGPC's *vice-chairman* of planning and projects to become Midor's chairman.

Dr El-Banbi insists "EGPC does not want to be in the refinery", but it had to take control "to ensure that work goes ahead. The Israeli side had some financing problems." The government, he adds, was hoping Agip and Repsol would each take 20 per cent, but neither had yet reached a decision.

The Israeli factor is also blamed for Egypt now having "little interest" in plans to build a natural gas pipeline – dubbed the "Peace Line" – which would take natural gas from Port Said to Gaza and Israel.

Dr El-Banbi said last *month that talks on the pipeline* had made little progress for almost a year, and that nothing would happen until the Israelis decided on their energy priorities. Discussions are to be maintained, however, at a non-government level between Amoco and Agip on the one hand and Israel's Electricity Corporation on the other.

The thrust of the government's gas export efforts has *shifted to Turkey*. Egypt, Turkey and Amoco signed a memorandum of understanding last November under which Turkey's Botas Petroleum Pipeline Corporation would buy 7.3m tonnes per year (t/p/a) of liquefied natural gas from 2000.

Egypt's proven and probable gas reserves, from on and off-shore the Nile Delta, the Western Desert and the Mediterranean, are put at 30 trillion to 35 trillion (million million) cu ft, with estimates revised upwards almost *every month*.

Western operating companies give much of the credit for Egypt's rapid development of natural gas in the past decade to EGPC's innovative and flexible agreements policies, particularly on cost-recovery and pricing.

A by-product of natural gas development, and a step which is already under way, is to use the ethane as a feedstock for petrochemical plants. Dr El-Banbi says Egypt is negotiating with the US's Phillips Petroleum *on a joint-venture to produce* 150,000 t/p/a of high-density polyethylene. Phillips, he *said, would probably end up* with a 100 per cent stake.

PROFILE International Group for Investment

Family makes good

Just over 20 years ago Mr Mohamed Sheta, chairman of the International Group for Investment (IGI), recovered the family textile business which had been started by his father.

The company flourished before falling victim to President Gamal-Abdul Nasser's nationalisation policies from the early 1950s. All that was left after two decades of mismanagement by the state was know-how and some business links with the Soviet Union.

Since then father and two sons have turned the ailing textile company into an *agro-industrial property* and services group with 3,200 employees and a *turnover of $750m last year*. Mr Sheta is a member of the Egypt-US presidential council, the main body directing joint economic policies.

The showcase of the IGI group is Interagra, which a year ago took over Dallah farm at Janacles, 70km from Alexandria, from Mr Saleh Kamel, a Saudi entrepreneur.

Dallah is less a farm, more an agro-industrial *complex spread over 6,200* acres of reclaimed land, comprising a 10,000 dairy herd with computerised milking and processing units.

***Specialists from the US*, Italy and Britain include a vet, an animal husbandry *consultant, a nutritionist* and irrigation, dairy and milk processing managers.**

"In five years," says Mr Hesham Sheta, the vice-chairman, "Interagra will have 25,000 milking cows and 60,000 animals. That will make it the largest dairy herd in the world."

Mr Sheta Jr reserves some of his most trenchant remarks for the European habit – now disallowed under World Trade Organisation rules – of dumping powdered milk on the Egyptian market. But, in common with other Egyptian critics, he clearly has little time *for the EU's* habit of preaching free trade to Egypt behind a *barrier of protectionism*.

IGI's former Soviet link is maintained through its Geneva office and its subsidiary Dynatrade, which has representative offices in such diverse places as Moscow, Kiev, Almaty, Bucharest, Johannesburg, Washington DC and Dubai's Jebel Ali free zone.

Dynatrade, one of 10 companies in the IGI group, has built up expertise in multilateral bartering of such goods as timber, non-ferrous metals, coal and steel. It also buys crude from the Egyptian General Petroleum Corporation which it sells on to Marc Rich and other oil traders.

Dynatrade is one of three IGI trading companies. Another is Income PIS (Petroleum & Industrial Services), which is working with Phillips Petroleum of the US to build a $500m petrochemical complex near Alexandria.

Intours, a real estate company, owns Gardenia Park, a new development of 300 houses and a shopping centre in 6th October City outside Cairo. Giza Construction has two parts: one to fill all the construction requirements of IGI companies and the other doing construction work for public sector clients such as the health and education ministries.

Four industrial companies include a joint venture with Unilever and another with the US branch of Babcock & Wilcox to make industrial boilers – one of Egypt's first privatised enterprises.

Robin Allen

LAND DEVELOPMENT • by Robin Allen

Dramatic gamble with nature

The president has announced a plan to settle 3m people into the desert in 20 years

Even before the first Pharaoh, King Menes united Upper and Lower Egypt around 3000 BC, Egyptians drew their livelihood and inspiration from the Nile. They have constantly searched for ways to expand the area that can receive its waters.

Kings of the Middle Kingdom were the first to build irrigation systems to *improve agriculture in Faiyum oasis*, where harvests are still gathered twice a year.

But the Nile is not Egypt's only source of water. According to officials in Kharga oasis, the administrative capital of the New Valley governorate 180 miles west of Luxor, limestone water 2,000 ft down, originating in tropical Africa, has been used for millennia by inhabitants of the oases in the Western Desert. Water from this aquifer, covering *about 150,000 sq miles*, is still coming up naturally, while more is being pumped.

Two thousand years ago the Romans built aqueducts just below the surface to tap this water, and underground irrigation channels to develop other parts of the oases.

These days the aquifer sustains about 150,000 people in four oases of the New Valley, which comprises 37 per cent of the country, an area 50 per cent bigger than Britain.

This is about to change. With a sense of the dramatic beloved by Egyptian leaders, *President Hosni Mubarak* has committed the government to "invade the desert" under the Southern Egypt Development Project, a E£300bn programme to move *3m Egyptians to the oases* in the next 20 years.

Kharga oasis in the New Valley: there are plans to develop the region by transporting water from the Nile Photo: Norbert Schiller

Supporters say their president is inspirational, opponents call the plan grandiose, and worse. Many are sceptical.

The government is convinced that to entice its own people – as well as foreign investors and new industries – it has to make better use of water already in the New Valley by providing more water from the Nile.

To achieve that, it aims to divert from Lake Nasser to the New Valley one-tenth of the 55.5bn cu metres of water it receives each year *under a 1959 agreement with* Sudan and Ethiopia.

It plans to pump water through a 125-mile canal to the Toshka reservoir, which is already taking overspill *from the lake following* heavy seasonal rains higher up the Nile.

From the Toshka reservoir another pumping station will push the water along a 500-mile canal north through Baris and Kharga, before turning west to Dakhla and north again to Farafra.

According to officials in Cairo and Dakhla the water will be used to irrigate up to 500,000 feddans (520,000 acres) of land.

It is a gamble with nature on an unprecedented scale but, according to the president, "a necessity imposed by population growth".

Not even his harshest critics can dispute this. More than 90 per cent of Egypt's 61m people live in the Nile valley, an area one-fifth the size of Britain. The riverine population will have increased to 76m by 2010, far too many for the Nile's *life-support system*.

Many Egyptians see the New Valley project is an act of faith. Inhabitants of the oases, simple people struggling to earn a living, naively hope that development can take place without damaging the purity of the desert. "We do not want the New Valley to be covered with concrete like the tourist resorts on the Red Sea or the northern coast," says Mr *Ibrahim Hassan, the region's* tourism manager.

But one reason no assur*ances are forthcoming* is that no overall plan exists. For a start, the route of the northern canal, named the Sheikh Zayed Canal after the ruler of the oil-rich Gulf state of Abu Dhabi, has already been changed once – in January, two months after it was first drawn up.

Second, no official has any firm idea how much the project will cost or who will foot the bill. Mr Abdul-Hadi Radi, the late public works and water resources minister, whose brainchild this was but who died in office at the end of November, suggested $1.9bn for a first stage.

Local officials on the other hand, say the first stage, taking 10 years, will bring the canal all the way to Dakhla, about 300 miles. One official map shows the canal reaching its northernmost point at Farafra, about 500 miles away, at a cost of only $1bn, all to be funded from abroad.

Last month the World Bank offered an eventual $200m credit to the state-owned Agriculture Development Bank for land reclamation in the New Valley. But that is all. Sheikh Zayed, a close friend of the president, is reported to have offered $12m, but this has not been confirmed in Abu Dhabi.

Many critics say the basic flaw in the plan is the *absence of any guarantee* that Egypt will continue to receive adequate supplies of Nile water as populations grow in Ethiopia and Sudan. Others point out that water without power is only half the solution.

Farmers and river pilots in the Nile Delta are concerned about any fall in the level of the river. Pilots point out that Nile river vessels have a draught of 1.5 metres, but that a minimum depth of 1.7 metres is needed for safety. They say that to create a *one-tenth fall in the depth of* the Nile is to play a dangerous game with nature.

Mr Hesham Sheta, the vice-chairman of International Group for Investment, is also a harsh critic of the plan. "The idea that you can divert this amount of water, not to mention money, into the New Valley without damaging existing productive areas like the delta, defies all economic logic," he says.

"Farmers are, as they always have been, the best judges about ways to improve productivity, but the government does not want to ask or listen."

The consensus is perhaps best expressed by Dr Adel Beshai, an agronomist at the American University in Cairo. "The SEDP could act as a catalyst," he says. "Moving to the desert is a must. There is no better way to inspire people than through a dramatic announcement. The president knows his people. Egyptians tend to join hands when they are inspired by an urgent national project."

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	1994	1995	1996
Net worth	334.8	390.6	462.5
Deposits	6415.5	7189.7	7874.2
Loans	2293.1	2937.8	3680.-
Total Assets	7609.0	8515.9	9338.1
Contigent Accounts	1197.5	1361.8	1530.6

Amounts expressed are in Millions of Egyptian Pounds
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	1995	1996
- *Growth Indicators*:*		
Lending Activities	*54%*	*40%*
Investment in Securities	*165%*	*572%*
Non Interest Income	*6%*	*39%*
- *Ratios:*		
Return on Assets	*0.7%*	*1.1%*
Provisions/Lending	*41%*	*31%*

Since MIDB's inception in 1975, the Bank has extended finance, in various forms; namely equity participation, loans and facilities to around 200 productive projects covering all sectors of the Egyptian economy. Moreover, the Bank has recently fortified its existence in the fields of retail and commercial banking through an active network comprising 7 branches, as well as correspondents spread all over the world.

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* Over corresponding figures of previous year

INDUSTRY • by Robin Allen

Struggling to manage change

Strategic investors are thinking twice before buying large stakes

The broad smile on the face of Mr Abdel-Mohsen Ameen, commercial and financial manager at the Ameriya Cement Company's plant near Alexandria, speaks volumes when the conversation turns to how Egyptian state interests, acting for Ameriya Cement, "saw off the foreigners" last November.

Egypt's rejection of a $160m bid from France's Lafarge Coppée – one of the world's leading cement plant operators – which would have given it a controlling stake, surprised financial analysts; it also cast doubt on the seriousness of the government's privatisation programme when it came to allowing "strategic" foreign investors to take effective control of some of Egypt's more important non-oil manufacturing industries.

If Mr Ameen looks pleased it is because he is as much a nationalist as businessman, and typical of the traditional attitudes which dominated Egyptian industry for so long. Industry in Egypt is good in parts, and Ameriya Cement is a prime example of much that is best and worst in Egypt's industrial and manufacturing sectors.

Lafarge's experience has caused strategic investors to think twice before trying to buy large stakes in Egyptian companies. Overseas investors backed off when 10 per cent of Helwan Portland Cement was offered to the public last December. Like Ameriya, Helwan is now statistically a private sector company, but control remains firmly with the state.

Imported technology, government tax-breaks, easy financing from state banks, the domestic construction boom, and the national preference for using bricks and mortar rather than steel have helped to make Ameriya – like several of its peers – highly profitable. The country's eight cement companies produce 18m tonnes a year; annual national demand is 20m tonnes, and expected to rise to 25m tonnes by 2000.

Ameriya, like many of Egypt's non-oil industries which the government is partly privatising, may be an attractive buy for foreign unit trust managers and investors content to have no say in how the company is run, but is less appealing to international companies seeking to make structural and management changes, such as streamlining the workforce.

"One prospective bidder for Ameriya," recalls Mr Ameen with wry amusement, "expressed astonishment at our workers sharing 10 per cent of the dividends. They (the potential investors) could not seem to grasp that our workers own 10 per cent of the shares." And, he might have added, rather more than 10 per cent of the influence when it comes to overstaffing, judging from the string of "secretaries" hovering in his office for no other apparent reason than to listen to the conversation in hand.

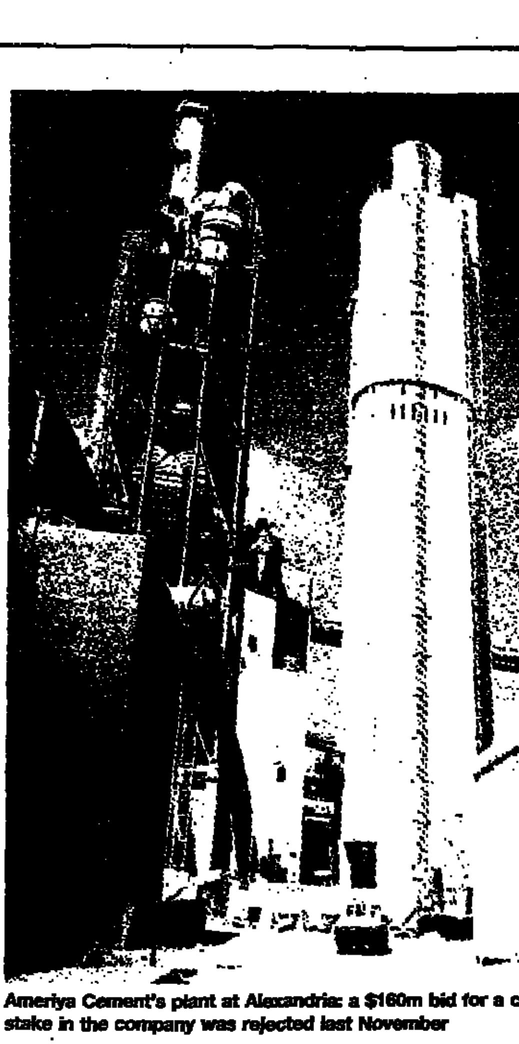
Under Egyptian labour law, workers cannot be laid off without a lengthy court process. Their jobs are guaranteed, along with annual pay increases, a share of the profits, and retirement at 60 with a pension.

Nationalist and co-operative instincts among senior managers hark back to their training in the cosy years of socialist protection. "A generation and a half of Egyptians have been bred and educated in socialism," said one senior Egyptian commercial diplomat in a western embassy. "Bureaucratic attitudes run through Egypt's industries."

The result is that many of Egypt's non-oil industries make poor quality products, fail to meet delivery schedules, and are still too dependent on political directives from Cairo. According to Egyptian commercial officers, the conviction that strategic foreign investors would benefit Egyptians was, until very recently, almost entirely lacking.

Foreign analysts and executives of strategic western companies who complain of the time and money spent in the due-diligence process researching Egyptian companies, would do well to tap into the knowledge and instinct of these locally-employed Egyptian commercial diplomats.

"Ministers themselves, and their senior officials, are now more aware of what industries need to do to be competitive and profitable," said Mr Kamel Sid Ahmed, deputy chairman of the Alexandria Businessmen's Association.



Ameriya Cement's plant at Alexandria: a $160m bid for a controlling stake in the company was rejected last November

But the change of attitudes has yet to filter down the bureaucratic ladder. "The important thing now is to manage the change," said Mr Ahmed, who is also chairman of Amreya Metal, a capital and technology-intensive company employing some 350 people. It produces 12,000 tonnes of castings annually for the motor industry.

A senior western diplomat said: "With significant individual exceptions, one of the fundamental flaws in Egypt's economic reform programme has been the failure of non-oil industries to produce quality manufactured goods for export." Domestic employment and demand, rather than quality production for export, are what drive them.

Non-oil industries now employ about 4.2m people, twice as many as 10 years ago but still fewer than those working in agriculture. With the exception of aluminium and the problem-ridden textile sector, few industries are exporters. Non-oil exports last year were only one-third of the $4.6bn total, and a drop in the ocean compared with Egypt's $13.8bn import bill.

"Ten-year tax holidays for newly-established companies are only a laxative," says the businessmen's association's Mr Kamel Sid Ahmed. "But, in the long run, tax holidays are the wrong way to go about it. Private investors would be much more tempted by a lower tax [rate].

"As it is, investors move around from one new city to another to take advantage of tax holidays. Sadat City (near Cairo and the first of the urban desert developments) is now dormant as companies have moved to more recently-established cities such as Burg Al-Arab."

There are many companies which have found a niche and are competitive beyond Egypt's borders. They include the Olympic Group, the Artoc Group for Investment & Development, Oriental Weavers, International Group for Investments, Ceramica, and Gowhara Company. What sets them apart from older semi-state industries is in the quality of their management, which fits what Mr Ahmed calls the "global investor" mould of international competition.

There are many others – joint venture, consumer durable and pharmaceutical companies and all the nine joint venture car assembly plants – whose domestic sales can flourish behind the massive customs tariffs on rival imports. But, as European trade officials point out, the profitable life of these companies will not last much longer than the success of the Egyptian-European talks on trade partnership"

The government's priorities are to create jobs for the half-million Egyptians joing the jobs queue each year. If deregulating non-oil industries will help achieve that target, then bureaucratic habits will wither. If not, they will thrive – if only so Egyptians can better protect their own.

PROFILE

New methods to maintain dominance

Two features catch the eye of a visitor to the head office of Olympic Group high in the sun-baked Moqattam Hills above Cairo.

The first is the fine view of Cairo's vast and austere 13th century Citadel. Here in 1811 Mehmet Ali, soon after seizing power and having himself appointed Pasha of Egypt by an indignant but powerless Ottoman Sultan, invited all his rivals to dinner.

As each of these Mameluke notables arrived he was silently and swiftly decapitated, even as the gates in the Citadel's massive walls closed behind him.

The Pasha enjoyed his dinner alone, safe in the knowledge that "market control" was his.

This is not to suggest that Mr Saad Sallam, chairman of Olympic – Egypt's principal manufacturer of domestic heaters and leader of a new breed of family-owned trading and manufacturing companies which are turning to their stock market to finance their expansion – has such dark thoughts about his rivals.

But the second eye-catching feature is the villa-like head office itself. With a multitude of dysfunctional steps and two front doors side by side, it could lead the more conspiratorial to imagine that one door is for friendly shareholders and the other for rivals to stumble through to oblivion.

These days, however, business dynasties devise more peaceful strategies, such as private placements and initial public offerings (IPOs) to establish market presence.

These are still an innovation both for Olympic, which is setting the pace, and for Egypt's non-oil private sector industry as a whole, much of which, for lack of quality management, is still suffering from a 35-year legacy of socialism.

Olympic Group Financial Investment (OGFI), the group's holding company, made its first private placement two years ago, selling 14 per cent to local and foreign institutions including Commercial International Bank, Concord International Investments, Goldman Sachs and HSBC's James Capel.

Now, according to Mr Sallam, Olympic is only waiting for accountants Arthur Andersen to complete their valuation before offering up to 30 per cent more of the holding company to the public. If all goes to plan, Mr Sallam reckons OGFI will raise about E£75m to E£80m. Beyond that, the group's policy is to raise more than twice that amount by floating off all 12 companies in the group.

These next moves by Olympic's holding company follow the same sequence of events as with the group's subsidiary, Cairo Precision Instruments (CPI). Following a successful private placement, 16.5 per cent of CPI was sold last January on the Cairo stock exchange for E£25.5m, the first such public flotation by a private sector manufacturer.

The reasons behind Olympic's move to increase capital are twofold: firstly, confidence in the will and ability of Prime Minister Kamal Ahmed el-Ganzouri's government to pursue tax and privatisation policies which will encourage private sector growth; and second, confidence in the quality and price of Olympic's own products and its ability to increase domestic and export sales both of established products and of more recent product lines such as refrigerators, air-conditioners, vacuum cleaners, washing machines and gas cookers.

All of Olympic's companies benefit from 10-year tax holidays, and even after they end they will continue to benefit from corporate tax rebates on 60 to 70 per cent of profits. In recent years these have been rising by 9 to 12 per cent annually, from E£24.5m in 1995 to E£28m last year on group turnover of some E£300m.

The rebates will help Olympic consolidate its 75 per cent market share for existing products and improve potential for new product lines where market share comprises less than 10 per cent of the total.

Mr Sallam sees strong growth in the domestic market as well as abroad, including Russia, South Africa, Chile and Peru.

Robin Allen

PROFILE El-Hosn Dyers and Finishers

Altered pattern of investment

Closing the appointment-filled pages of his desk diary, Mr Sherif Hosni, chairman of the family-owned El-Hosn Dyers and Finishers, reels off details of every aspect of his business as if he has worked in every department himself. He has, more or less.

El-Hosn, started by Mr Hosni's grandfather, a Syrian immigrant to Egypt, is typical of the tightly-run family businesses which will provide Egypt not only with the elements necessary to achieve 6 per cent to 7 per cent growth by the end of the decade, but also with the domestic finance increasingly seen as essential for the diversification of the economy.

"First, my grandfather started a wholesale operation of imported and locally-produced fabrics. Then my father started a weaving company in Cairo, and then, in 1984, started dying and finishing woven fabrics, and then in 1992 dying and finishing knitted fabrics," says Mr Hosni.

Expansion within known or interconnected businesses has been the trend among many family companies like his, keen to exploit all the areas open to them. The company is planning to expand on land adjacent to its present factory, using its own finance. The aim is to develop yarn and indigo dying as well as garment manufacture.

"If Egypt is going to remain competitive, then it shouldn't only remain in textiles and industries related to cotton," says Mr Hosni. "But if we diversify it will be in textiles. And for us to be more competitive the import taxes on yarns, dyes and chemicals should be reduced, as 10 per cent of our retail price is accounted for by the taxes we have to pay."

The company aims eventually to export 70 per cent of its output. Its knitting sector is exporting 80 per cent, woven dyed fabrics 30 per cent and knitted fabrics 20 per cent – these areas accounting for 45 per cent of its output. The Egyptian market is viewed as static.

"Even though we have remained within the textile-related area, diversification is very important to us. But it's all quite new to Egypt, and a bit confusing. But the investors need people like us – people from different industries who can give their views," says Mr Hosni as we tour the high-tech factory floor, equipped with the most modern machinery. He proudly points to a framed certificate declaring the company eligible to provide dyed fabrics to the demanding British retailer, Marks and Spencer.

Five members of the Hosni family are employed in the business. But an era in which decisions were once made around the kitchen table is expected to end gradually.

With much the same eye for an opportunity that the family has retained over the years, they are using their financial power to benefit from the expanding Egyptian capital market, holding a 5 per cent stake in Commercial International Investment Bank, a subsidiary of Commercial International Bank which owns 15 per cent of three of the companies into which El-Hosn is divided.

This involvement has generated a greater familiarity with the complexities of the financial world – a rather daunting arena from which many companies have kept away.

"The business is growing, and the family can't do everything itself," says Mr Hosni. "We had originally planned to start to go public with this 15 per cent sold in a share-swap with CIIC. But it's not easy to take such decisions. I was born into this business, and it's a bit risky. But we are thinking of a 15 per cent to 20 per cent share issue on the stock market later this year."

Mark Huband

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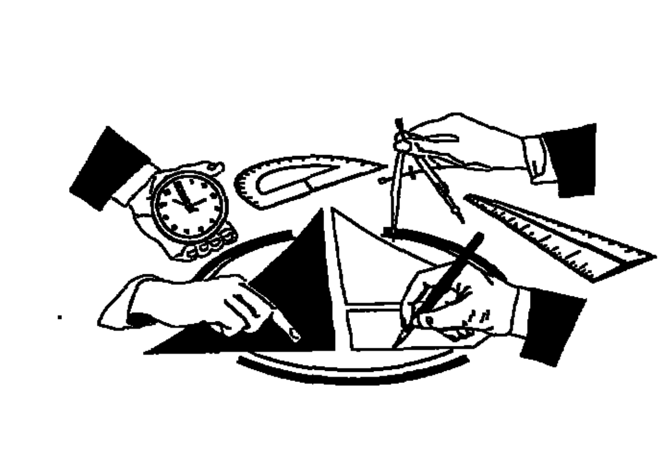

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FT FINANCIAL TIMES

PROFILE Mansour

Empire set for opportunity and challenge

The Mansour group, one of Egypt's biggest family-owned conglomerates, thrived in the country's old closed economy. Now liberalisation brings Mansour abundant new investment opportunities, but it also brings the threat of far greater competition.

Mansour is a sprawling conglomerate of 25 companies engaged in activities as diverse as car manufacture and tourism. With 3,000 employees and group turnover of $700m it is sizeable by international standards, and one of a select band of Egyptian industrial giants.

The group built up its massive empire in the hybrid half-market, half-command economy which emerged following Sadat's "open door" policy of the 1970s. Foreign companies were encouraged to invest in Egypt, but could not own companies outright or repatriate profits freely.

The Mansour family acted as a joint venture partner to big foreign multinationals which wanted to gain a foothold in Egypt. Joint ventures remain the heart of Mansour's business today.

Mansour Motor Group has a 20 per cent stake in General Motors Egypt, and sole rights to distribute and service GM cars and trucks. Mantrac is Egypt's sole dealer in Caterpillar construction machinery.

Mansour Distribution has the sole rights to sell Marlboro cigarettes and Philip Morris-packaged foods in the country. Manfoods owns the McDonald's franchise for Giza (part of Cairo) and Alexandria.

However, Mansour is evolving from its traditional role as an importer and distributor. General Motors Egypt, for instance, now produces cars with 60 per cent local content.

In part, it is guided by recognition that cosy old arrangements will be disrupted as tariffs fall and domestic competition intensifies. "Like any business one has to go through a period of transition," says Mr Mohamed Mansour, Mansour group president and son of its founder, Mr Loutfy Mansour.

Foreign competition is a big threat to Mansour's interests in the car industry. But, so far, adept manoeuvring by General Motors Egypt and other car manufacturers has put import liberalisation on the back-burner.

Mr Mansour says that reform has "greatly increased" opportunities for investment. "We are investing in the financial sector, privatisation companies coming to the stock market and in tourism," he says.

Mansour has bought into a new brokerage, Intercapital Securities, which it hopes will eventually rival Egypt's leading broking house, EFG-Hermes.

It is also considering buying some of the 314 public companies being privatised under Law 203 – some of which are already quoted on the market. "It is a good time to grow by acquisition," says Mr Mansour. "We would aim to be the core investor."

Specifically, Mansour is interested in privatised companies which fit with its existing businesses – "industrial companies, cement companies and some of the housing companies".

The group is not keen on buying companies outside its areas of expertise which need restructuring. "As we are currently set up I do not think we would be able to do turn-around projects," he says. "It requires an abundance of managers."

But while Mr Mansour is enthusiastic about financial services and privatised industrial companies, by far the biggest investments actually made by Mansour are in the tourism sector.

"I see tourism picking up – there is huge potential," says Mr Mansour. The group is a key investor in a huge project to develop the Red Sea coast at Taba.

The Mansour group's company brochure shows Egypt as the crossroads between Europe, the Middle East and Africa. Mr Mansour sees big opportunities for Egyptian business as a "gateway" into regional markets.

The group has singled out sub-Saharan Africa as a core area for expansion. Last year, Mantrac won the Caterpillar franchise for six African countries – Nigeria, Ghana, Sierra Lione, Kenya, Uganda, Tanzania.

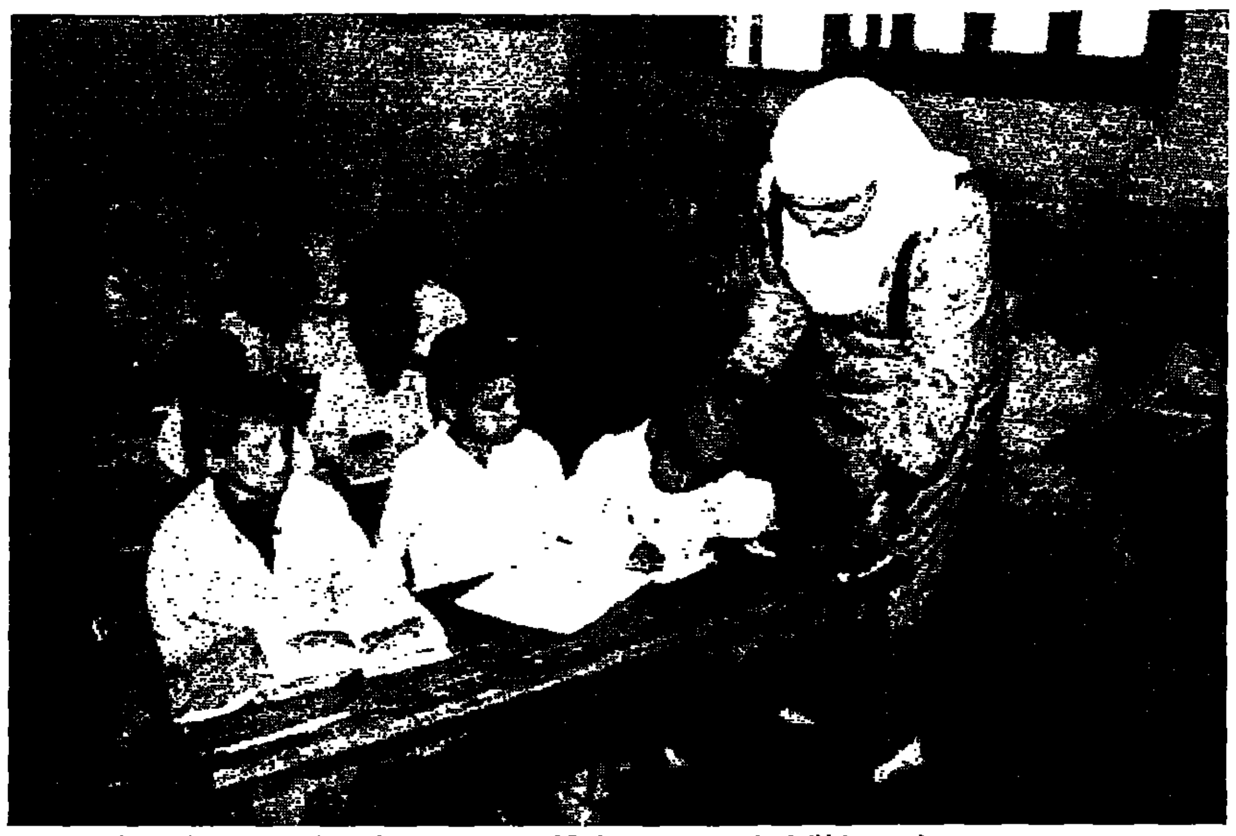
When Mantrac reaches an asset transfer deal with Unilever, which previously held the franchise, Mantrac will employ about 1,100 employees in sub-Saharan Africa and 100 in the UK.

At present, Mansour finances all its acquisitions through its strong cash-flow and lending from banks on and off-shore. Like other family-owned businesses, it has jealously guarded its independence and has no difficulty finding banks willing to lend at thin margins.

But this culture is slowly changing, too. Mansour is considering raising equity for the first time through a share issue by one of its subsidiaries. "It is not a necessity but it is something we are starting to think about – there are opportunities to use these sources of funds."

One day soon investors will be able to buy Mansour shares, and Mansour will have to adapt to outside scrutiny and shared control. "It's a question of when, where and how," says Mr Mansour.

Krishna Guha



Egypt has a huge school-age population, but the 6 per cent of GDP spent on education is thinly spread

Photo: Norbert Schiller

EDUCATION • by Krishna Guha

Illiteracy and graduate joblessness pose threat

System is out of balance, with poor primary teaching and too many graduates

One in two Egyptians cannot read or write. About 60 per cent of women are illiterate as are more than one-third of men. They lack the most basic skills to compete in the global market economy.

Most children pass through the creaking primary school system, but many emerge functionally illiterate. Most go to school for only five years and receive a couple of hours of schooling each day – much of it rote learning from old textbooks and the Koran.

At the same time Egypt's over-stretched universities churn out a surplus of graduates – highly educated but with skills that are not in demand in the job market. Those that find jobs often work as clerical assistants or waiters in tourist hotels. Many do not. The average unemployed Egyptian is much better educated than his counterpart in work.

Mass illiteracy and graduate unemployment are crippling Egypt's prospects for growth. They pose a big threat to stability too. Radical Islamism is rife in the underfunded schools and among the ranks of the graduate unemployed and under-employed.

"Education is the *sine qua non* of success," says Mr Youssef Boutros Ghali, minister of state for the economy. He knows that the Asian "tiger" economies are 80 per cent or 90 per cent literate. "If the education system does not keep up with my needs I am doomed."

Egypt is four years into a hurried programme of educational reform. "The government now spends a sensible proportion on education – about 6 per cent of gross domestic product," says Dr Ahmed Galal, director of the Egyptian Centre for Economic Studies.

But the money is thinly spread over Egypt's huge school-age population. Spending per child is estimated to be barely two-thirds of the average for all Middle East and North Africa (Mena) states – and a mere 4 per cent of spending per child in Israel.

Current spending has to overcome a huge backlog of under-funding dating back to Egypt's financial crisis of the late 1980s. In 1988 the primary cycle was cut from six to five years – barely enough to teach pupils to read and write – in a desperate attempt to husband resources.

Disillusioned teachers turned to Islam in droves in the late 1980s as they lost faith in Nasser's vision of an Arab socialist state built on universal secular education. By the early 1990s many schools were effectively run by the Moslem Brotherhood.

Mr Hussein Kamel Baha'a el-Din, minister of state for education, has led a personal campaign to recapture the state sector. Hundreds of teachers with links to the brotherhood – some good teachers – have been sacked or demoted. The battle is not over.

The government has tried to outflank the fundamentalists by giving its ultra-conservative allies at Al-Azhar, Cairo's 1,000-year-old seminary, greater influence over Egypt's 9,000 religious schools.

But in the state sector the ideological battle has given urgency to reform. Active learning is seen as a public vaccine against the preacher's rhetoric. In the last year teachers' salaries have been raised, new textbooks printed and the curriculum enforced.

The government has made great strides in improving access to education. In this respect it owes much to Nasser. He beqeathed to Egypt a network of schools which – however overstretched – promise education for all, and reach most of the population.

About 85 per cent of Egyptians of primary school age go to school. The government is building 1,000 schools a year. It discovered – to general surprise – that parents who would not permit their daughters to travel to school were happy to have them schooled on their doorstep.

The government is redirecting spending from universities to schools. The education "pyramid" of primary, secondary and tertiary education currently looks much like an obelisk. This is gradually changing.

The problem is not getting Egyptians into schools, but the quality of education they receive. Population growth has stretched school resources to breaking point. Many teach in shifts.

Pupils are obliged to pay for extra tuition from their own teachers to pass exams. This augments teachers' salaries but gives them little incentive to teach in class. It is widely believed that if a pupil does not pay up, he or she will be failed.

Egypt has a revered tradition of tertiary education. Its expatriate doctors, lawyers and engineers have attained international renown – and contribute heavily to the country's $3bn workers' remittances each year.

But the university system modelled under Nasser is minutely shaped to create bureaucrats and technicians for the old socialist state.

There are new elite private universities – such as the American University of Cairo – which teach business skills. But elsewhere institutional cultures are still rooted in the 1960s.

There are problems on the demand side, too. The education system suffers from a huge shortfall of demand and a lack of competition in the labour market. Dr Nader Fergani, Egypt's leading educationalist, says there is "a negative return to high school education".

Children who do not go to school find work as street traders, or apprentice plumbers and mechanics. But there is little business demand for school leavers. Hence Egypt has few people with just high school education as opposed to primary or university education.

Meanwhile, there is a time-honoured convention dating back to Nasser that all graduates have a right to a government job. This pledge was never fully met but it is still enormously influential.

"Conditions of employment in the government sector condition the market," says Dr Fergani. Graduates study in hope of securing a job from the government – the biggest graduate employer by far.

Last year Mr Kamal El-Ganzouri, the prime minister, announced for the first time that that government was freezing its recruitment of graduates. This is a vital step in changing educational culture.

But big productivity gains require further reform of the labour market as well as new subjects in the classroom.

COTTON AND TEXTILES • by Mark Huband

Undercutting hits traders

The industry's inefficiency sends manufacturers elsewhere for raw material

Egypt's readiness for foreign competition, and the government's recognition that it must increase its exports to sustain a minimum necessary growth level, has brought little good news in the cotton and textile sectors.

Although textiles account for 16.1 per cent of exports – and more than 30 per cent if petroleum exports are excluded – the government has yet to reduce its protection of an industry which has a quality product, skilled manpower and decades of experience but which remains highly uncompetitive.

The 1997-98 cotton season is expected to see a crop of 400,000 tons, about 50,000 tons more than in the previous year. The government will also set a minimum producer price of E£500 per qantar (1 ton = 20 qantars), E£100 above the world market price for the new season, says Mr Yousef Waly, the agriculture minister.

State export companies have already been given the task of selling the 1996-97 cotton crop at a loss estimated at E£600m. Meanwhile, to undercut cheaper foreign imports, the government has been selling cotton to local spinning companies at E£350 per qantar.

The inefficiency of the cotton industry, based on small-scale farming, has encouraged manufacturers to look elsewhere for raw material. Production problems last year led to an increased amount of yarn being imported, with manufacturers able to circumvent import duties on presenting proof that the manufactured products had been exported.

The undercutting by the public sector of prices paid by private sector cotton traders has had a serious impact on traders already reliant on the heavily-indebted public sector spinning and weaving industries.

A recent report by the Central Auditing Agency (CAA), which examined 31 textile companies affiliated to three state holding companies said that the companies' total losses had risen from E£732m in 1995 to E£1.3bn in mid-1996, and had risen to E£2.2bn by the end of last year.

The losses are expected to rise to about E£4bn this year, according to Mr Amin Mubarak, chairman of the parliamentary industry committee.

The CAA report emphasised that the mounting losses, which had led to the companies amassing huge debts at commercial banks – which several were unable to repay – had been caused by rises in the price of cotton.

"Compounding matters is the fact that the textile sector is still plagued by the same, chronic problems it has faced in the past," the report said. "Foremost among these are a huge, unsold inventory, severe technical problems, modest productive and marketing capacities, lack of cash liquidity and a long record of debt to commercial banks."

The negative impact for the domestic spinning and weaving industry of the cotton producer price guarantee has tended to increase discussion in government circles of the need for greater textile exports. The government is considering an indirect subsidy to textile manufacturers to offset the high cost of domestic cotton.

"There are companies that will be able to survive the competition of liberalisation," says Mr Ahmed Galal, executive director of the Egyptian Centre for Economic Studies, an independent think-tank. "They are exporting and doing very well. There are others that are using good cotton to make bad products. These companies just need to have the right technical assistance.

"Then there are other companies that have machines that are 100 years old. For them, you can't just continue with business as usual. Something more serious has to be done with them."

Reform of the textile sector is viewed in increasingly harsh terms by the government, which is keen to see over-employment reduced.

Mr Abdel-Hakim Haggag is chairman of the state holding company to which the state-owned spinning, weaving and ready-made garment factories are affiliated. He has proposed that the state-owned textile companies should be put in three categories: those that should be liquidated because of the scale of their debt; those that should be leased to foreign companies with the expertise to turn them around; and those profitable ones which should be privatised through initial public offerings (IPOs) or sold to anchor investors.

The impetus to export finished textiles will intensify from next January when new rules allowing fabric imports will come into effect.

"For us the only way out is to export, and to produce high quality garments, of a kind that are not produced in the Far East," said Mr Sherif Hosni, chairman of El-Hosn Dyers and Finishers, a successful, family-owned company outside Cairo. "The top quality is one of the few areas in which Egypt is competitive with the Far East."

The government's policy of export promotion as a means of achieving a 7 per cent to 8 per cent growth in GDP by mid-1998 has strongly influenced the reform strategy being pursued in the textile sector.

"There's migration of this industry from south-east Asia, and from Israel, because it's too expensive and unstable there," says Mr Yousef Boutros Ghali, the minister of economy. "The trick is to get these guys here."

The attraction of cheap labour is a crucial element which the government will promote as providing a clear competitive advantage.

The high quality of Egyptian cotton, as well as the presence of a manufacturing industry which is expected to have potential if it is opened up to anchor investors with knowledge of the industry, have made the sector a prime candidate for the reform which has so far been reserved for more saleable sectors of the economy.

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PRIVATISATION • by Mark Huband

Handover needs some juggling

Restructuring of labour has been used to keep the schedule on course

The government's moves to sell its majority stake in 246 companies face the inevitable problems of share price fluctuations and the difficulty of packaging companies which require substantial restructuring.

So far more than 40 of the companies earmarked for sale have experienced some degree of privatisation, with many of them now being 51 per cent or more in private hands – although the government retains a large shareholding in most of these.

Privatisation is being slowed by attempts – which have so far come to nothing – to strike a deal with creditor banks for the rescheduling of the E£1.5bn debt of 15 state-owned lossmakers – with a similar amount owed in interest.

Meanwhile, the government is planning to issue bonds worth $1bn this year, with the aims of achieving a benchmark sovereign credit rating and raising funds which would be used to assist in the repayment of public sector debt to the public sector banks – much of it owed by lossmaking companies.

One of the four main public sector banks – believed to be Bank of Alexandria – is itself under consideration for privatisation by the end of the year, and the government is keen to wipe the debt slate clean before it moves the bank into the private sector.

In an effort to prevent the privatisation schedule veering radically off course, the government has keenly pursued pre-privatisation labour restructuring. Men aged over 50 and women over 45, who have worked for public sector companies for more than 20 years, are eligible for lump sum compensation of E£12,000 to E£35,000 if they accept early retirement.

The government has paid out E£200m to workers who have accepted this offer. Companies which remain to be restructured are expected to require a similar amount and about E£300m will be needed for redundancy payments to employees in companies which are likely to be liquidated, says Mr Atef Obeid, the minister for public enterprise.

The government estimates that overstaffing in the 948,000-strong public sector, which has been reduced by 120,000 since the privatisation programme started last year, represents about 18 per cent of the workforce. However, as labour costs account for only 12 per cent to 14 per cent of turnover, it does not see oversaffing as the main concern of future investors.

"The lossmaking companies are easier to sell than the profitable ones," says Mr Ahmed Galal, executive director of the Egyptian Centre for Economic Studies think-tank, "because the potential for growth is much greater in a lossmaker than a profitable company.

"The government has come to the conclusion that fixing the companies in all aspects before privatisation is a bad idea because you are supposedly selling it to somebody who knows that business. You're better off letting that person fix it."

Debate is centring on the number of companies needing to be closed altogether. Mr Obeid says there are 20, but others say there are many more.

"Sixty to 80 per cent of the companies left for sale are junk," says one well-placed economist. "And the government is running out of companies that can be easily disposed of on the stock market.

"Also, with stock prices so high, it cannot put out large tranches of companies that are already issued at low prices. The privatisation process is going to become much more difficult.

The government has raised more than E£5bn from privatisation, and E£11.2bn is expected to be raised from equity. This income, which is held by the central bank, is enough to prompt officials to start the search for anchor investors.

"The second phase (of privatisation) will have three features," says Mr Obeid. "More will be sold in companies whose stock has already been put on the market, but we will sell at the right time.

"Second, we will be preparing the giants – major textile companies, aluminium, sugar – to be sold through the stock market.

"And third, I do think that the introduction of private investment in the utilities has to be given the opportunity to show that private investment is feasible and can provide quality service at reasonable cost. Once you get that done, you do have showcases.

"The new and good thing that is happening now is that joint funds – Egyptian and foreign – are being mobilised in preparation for a deal."

Concern about the ability of the capital market to soak up the $2.1bn capital inflow to Egypt in fiscal 1996-97 when macroeconomic reform targets remain vulnerable to being knocked off course, has subsided due to institutional reform of the stock exchange and, until very recently, the readiness of investors to snap up shares in the new privatisations.

Regulation of the stock exchange – where 30 broking houses are excluded from voting for the new board of directors after having committed a variety of misdemeanours – is expected to undergo a significant overhaul by mid-June. Brokers will have their influence diluted by representatives of other financial groups – including mutual funds – being given a voice in the running of business.

Similar institutional reforms intended to ensure that foreign portfolio investors are not deterred, and that they are followed by foreign direct investors, are regarded as necessary to ensure that the pace of privatisation is maintained.

Legal uncertainties remain a concern. "The taxation of foreign mutual funds is an area the capital market law did not address, leaving the foreign mutual funds liable to pay tax," says Mr Ziad Bahaa Eldin, a Cairo-based specialist in company law.

"There is also some question as to whether the newly-privatised companies can immediately become investment companies, allowing them to benefit from the tax holidays afforded to start-up companies. Broadly-speaking the legal environment needs to be tackled much more seriously than it is."

PROFILE Al Ahram Beverages Company

Waste and corruption 'beyond imagination'

Mr Ahmed Zayat took over as chairman of the newly-privatised Al Ahram Beverages Company in March. He says that even the most fertile imagination could not have foreseen the state of affairs that he has inherited.

"This is a highly profitable company. But the amount of waste and the amount of corruption is beyond my wildest imagination," he said, exasperated and still rather stunned by the enormity of the task he faces.

"A case of Stella beer is E£54, but it doesn't leave our warehouse until E£60 has been paid. The kick-backs are high. The money that is being paid for each case is shared almost from the top to the bottom of the company," he says.

"Now, resistance to the changes I want to introduce is coming from the people who are corrupt. I'm meeting resistance from people who are saying that it is difficult to sell beer. It is particularly in the sales department, where they don't want me to increase the volume, because that would destroy the black market – which we estimate was earning those involved around E£600,000 a year."

Mr Zayat's struggle to reform the company from within is matched by the complicated struggle he had to buy it in the first place.

In a complicated deal his Luxor Group agreed to buy the shares, then float the company on the London stock exchange as global depository receipts. It was from the sale of the GDRs that he paid the government the original share purchase. It was an ingenious deal, which earned the Luxor Group $20m, the value of the shares having greatly increased between the agreement of the purchase price and the GDR issue.

The Luxor Group's bid for the company, and its method of financing the deal, marked several major steps forward in the government's privatisation programme. First, it showed that foreign investors were ready to buy into companies – in the form of the GDRs – on a scale which would allow anchor investors to become majority shareholders in one deal.

Second, it revealed much about investor attitudes to Egypt. The deal was subject to intense competition among potential lead managers. When a leading finance house was selected, others voiced suspicions about whether Mr Zayat was out to make a fast profit rather than restructure the company, which will include demolishing the production plant and building a $51m replacement at a new site – offering a 15-year tax holiday – outside Cairo.

"There was a lot of personal resentment with regard to this deal. Some brokers did not want it to happen, and when the flotation took place some of them switched off their computer screens to prevent dealing in our shares," says Mr Zayat.

He has a message stored on his answerphone from the representative of a company which was, the message reveals, seeking his business. The same company then turned against him, he says.

"In fact this is the cleanest deal that has ever taken place in Egypt. Not one single person was bribed," he says, looking down at his bright blue office carpet, emblazoned with the insignia of the Danish brewer Carlsberg, with whom he will be brewing Green Label beer within two years.

The restructuring necessary to help maintain Al Ahram's dominant position will be cushioned by its profitability, as well as the deal with Carlsberg, which will give Al Ahram exclusive rights to export Carlsberg beer in the Middle East and North Africa.

On the question of having become head of a company brewing beer in the cradle of Islamic civilisation, Mr Zayat is optimistic: "Beer isn't really perceived as hard liquor. This has always been the perception in Egypt. I won't have a problem."

Mark Huband

INVESTMENT • by Krishna Guha

Gap waiting to be filled

The immediate problem may be a lack of demand rather than a lack of funds

A huge investment gap separates Egypt from its aspiration to become a fully-fledged emerging market economy. The country invests only 18 per cent of gross domestic product – compared with more than 30 per cent in some Asian "tiger" economies.

Investment is rising – up 1 per cent of GDP in 1996-7 – led by the private sector. But private sector investment is not rising fast enough to do much more than compensate for harsh cuts in public investment since economic reform began in 1991.

"Egypt needs to invest another 6 to 8 percentage points of GDP" – about 25 per cent of GDP – if it is to meet its target growth rate of 7 per cent a year, says Mr Arvind Subramanian, Cairo representative of the International Monetary Fund.

While Egypt has enjoyed a modest wave of international portfolio investment, total foreign direct investment – the acid test of reform – is estimated at $800m for 1996-7, up from $600m in 1995-6. This is tiny by emerging market standards, and almost entirely limited to oil, gas and tourism.

Mr Youssef Boutros Ghali, minister for the economy, says that foreign investment always takes time. "What I need is savings," he says to finance domestic investment. Egypt saves only 11 per cent of GDP.

In the short term, however, Egyptians have accumulated as much as $60bn offshore. Domestic savings – while very low by international standards – are probably under-reported.

Banking reform and the creation of an active capital market has increased access to loans, debt and equity finance. If the experience of the banks is indicative, the immediate problem is a lack of investment demand rather than a lack of funds.

The macro-economic climate – solid government finances and a stable Egyptian pound – favours investment. But spending cuts and high interest rates since reform began in 1991 produced a near recession from which Egypt emerged only in 1996.

Domestic investment began to pick up last year as growth reached about 5 per cent. Private companies are only now enjoying the strong profits and cashflow which stimulate investment.

Investment also requires structural reform – and this has lagged far behind reform of state finances. "I am surprised private sector investment has responded as quickly as it has – deregulation has only just started," says Mr Subramanian.

The World Bank complains of delays in securing licences, arbitrary tax inspection, and endless problems with customs. Labour laws are highly restrictive – although often ignored.

It is difficult to pursue commercial disputes through the courts. Mr Ziad Baha'a El-Din, a corporate lawyer, says that Egyptian law is sophisticated but admits that implementation is "very poor".

Egyptian businessmen say last year saw a new "dialogue between the government and the private sector". Some red tape has been cut away. But the government has barely started to tackle the biggest disincentive to investment – the lack of competition and monopoly power. Egypt underinvests because many of its sectors are effectively oligopolies.

Egypt's private sector – which earns 70 per cent of GDP – largely consists of farmers and small traders. The state sector dominates the corporate economy. Only 22 of 314 state companies have been majority-privatised. The "economic authorities", utilities, banks and defence industries, overshadow many other sectors.

Egypt has a number of big family-owned businesses, but it does not have a big entrepreneurial sector. Most of the large private sector companies are importers and professional joint venture partners. Few add much value, and fewer still export.

This charmed circle grew to giant size in an artificial economy, protected by tariff barriers which remain among the highest in the world. Liberalisation threatens their existing businesses.

"Tariff reform will eliminate arbitrage opportunities," says Mr Boutros Ghali. "It will eliminate a whole class of rentiers which lives off anomalies in the system."

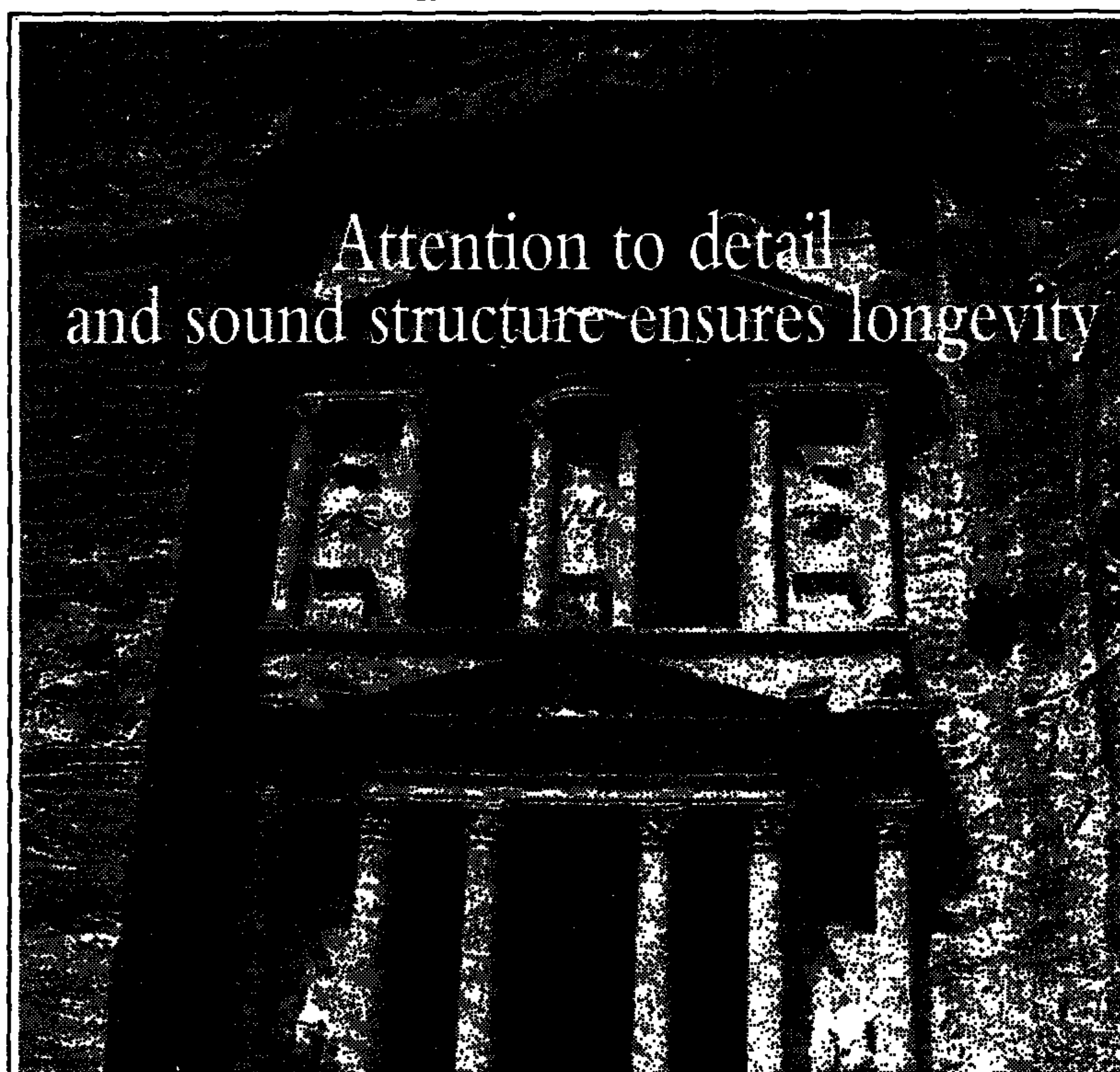
Big Egyptian conglomerates are going through what Mr Mohamed Mansour, president of the Mansour group, calls a "period of adaptation" to the new "conditions of the game of doing business in this country".

Some are evolving from import and assembly to manufacturing. "In Xerox Egypt [a joint venture] we started with simple assembly then gradually evolved manufacture of components locally," says Mr Farid Saad, director of Egyptian Finance Company. "We have added value over time."

But Egypt's domestic market is too small to support big ticket manufacturing. Only about 3m to 5m of Egypt's 60m people can afford consumer durable goods. Egypt needs to export – regionally and to the European Union – and this requires bilateral tariff reform.

If liberalisation progresses foreign direct investment (FDI could pick up. There are tentative signs of a second wave of FDI, attracted by privatisation. Hoeschst of Germany and British Oxygen (BOC) are believed to be bidding for industrial Gases. Saudi groups such as Al-Zamil are looking at Egyptian projects. Paramount pictures is exploring proposals for a theme park.

"The fundamentals are right," says Mr Subramanian. But, he adds, investors still need "enduring proof" that Egypt is a level playing field – open, deregulated and devoid of red tape.



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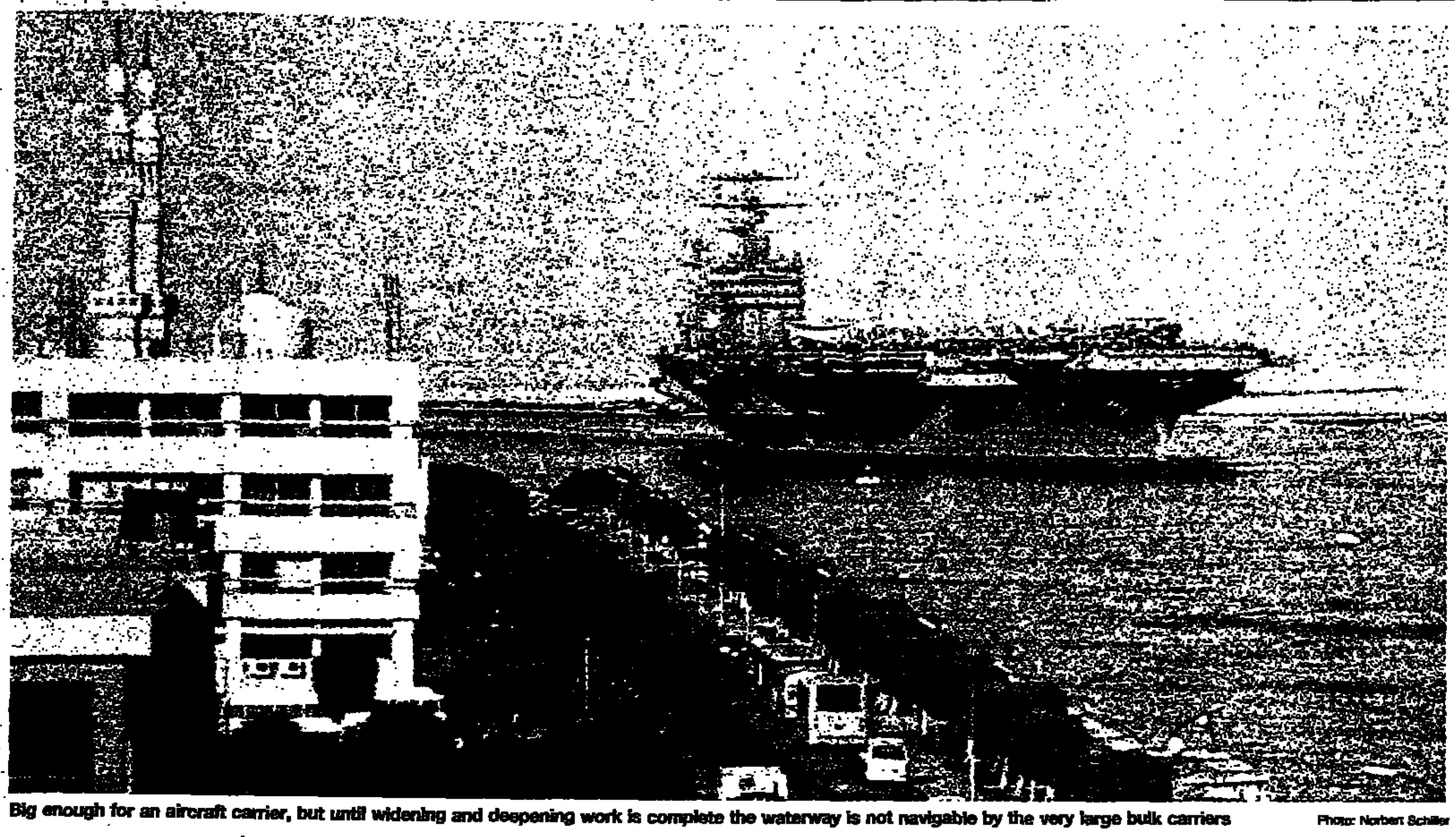

Big enough for an aircraft carrier, but until widening and deepening work is complete the waterway is not navigable by the very large bulk carriers Photo: Norbert Schiller

SUEZ CANAL AUTHORITY • by Robin Allen

Competition drains income

Efforts to deepen waterway may come too late to halt decline in traffic

In Port Said, overlooking the Mediterranean entrance to the Suez Canal, stands the plinth of the statue commemorating Ferdinand de Lesseps, the canal's builder. The statue itself was torn down by nationalist mobs in the aftermath of President Gamal-Abdul Nasser's historic speech in July 1956, when he announced Egypt's takeover of the Suez Canal company.

More than four decades later, new hotels and scores of duty-free shops are giving out a different message...that today's priorities are not nationalisation or state monopolies, but private sector initiative, competition and profits.

This message does not, however, seem to have percolated down the canal to the headquarters of the Suez Canal Authority (SCA) in Ismailiya, a sleepy town of fading provincial grandeur.

Here, the main streets are lined with elegant houses of European colonial vintage. The hotels are old and the spacious public gardens unkempt. Inside the SCA's building canal officials shuffle around in languid fashion, doing not very much. The sharp air of competition is lacking.

Egyptian bureaucracy can be very quaint, but it is not very alert.

SCA figures confirm the impression that the company, once the pride of Egypt, has slipped into a fitful doze. Canal revenues were down again last year, to \$1.88bn from \$1.94bn in 1995 and \$2bn in 1993.

The number of vessels using the canal also declined, to 14,731 from 15,051 in 1995 and 16,370 in 1994. Particularly serious is the drop in northbound oil tanker traffic, which has fallen by more than 30 per cent since 1991. The daily average of all kinds of vessels using the canal last year was at its lowest since 1975.

The daily average for tonnage slumped last year by as much as 26 per cent for some categories of tankers, and for all kinds of vessels was the lowest in 10 years. The fall has been only partly compensated for by a 14 per cent increase in the tonnage of container ships and car carriers.

Competition is coming from all sides, including ultra-large crude carriers (ULCCs) and very large crude carriers (VLCCs) – many of whose charterers find it more economical to use the Cape of Good Hope route to transport Middle East crude to Europe and the US rather than the canal – and the Suez-Mediterranean (Sumed) pipeline operated by Arab Petroleum Pipelines Company.

Sumed is half-owned by Egypt, with the rest divided among Saudi and Gulf oil producers. Both Sumed and SCA officials claim there is no competition between the two. Each, however, is trying to entice customers at the other's expense. So far Sumed is ahead.

It has increased the pipeline's pumping capacity from 84m tonnes a year to 117m tonnes. It has also expanded storage capacity at both terminals, Ain Sukhna in the Gulf of Suez, and near Alexandria in the Mediterranean. This enables ULCCs and VLCCs – too large to travel the canal fully laden – to discharge oil at Ain Sukhna, pass through the canal in ballast (empty), and reload the crude in the Mediterranean.

Sumed is also studying plans to extend the pipeline from Ain Sukhna, across the Red Sea to Saudi Arabia and down the coast to start pumping crude at Yanbu.

According to SCA officials, a two-year-old agreement with Sumed "is not yet working". Under this arrangement, any tanker small enough to use the canal fully-laden was to be encouraged not to discharge at Ain Sukhna. ULCCs and VLCCs were to discharge only part of their crude at Ain Sukhna and pass through the canal half-laden.

In November, Mr Ali Ahmed Fadel, SCA's chairman since January last year and a former head of the Egyptian navy with no previous commercial experience, announced transit fee discounts of 5 per cent to 30 per cent for oil tankers carrying up to 3m tonnes, and of up to 35 per cent for liquefied natural gas carriers. Other basic transit rates would remain at 1994 levels.

SCA market studies had indicated the new rates could help increase revenues by 5 per cent to 10 per cent this year. However, this year's first-quarter revenues of some \$450m follow the same downward pattern as in previous years.

Mr Fadel has also emphasised the great importance of direct contact with shipowners. In spite of the rhetoric, owners of general cargo vessels have been outraged by what they say are unjustifiable extra charges amounting to thousands of dollars on items such as mooring ropes, which are arbitrarily imposed by SCA officials. Their complaints, like many enquiries to Mr Fadel's office, go unanswered.

The SCA's attraction to northbound oil tankers, as well as container and general cargo traffic, is also threatened by Israel's Tipline, which runs from Eilat in the Gulf of Aqaba to Ashdod on the Mediterranean, and from cargo being unloaded at Eilat and hauled by road to Ashdod.

Its main response is to widen the canal so it can take ULCCs and VLCCs. But instead of tendering work out to specialist companies and getting the job done in the shortest possible time, the SCA decided to do the work itself. It spent a lot of time and about \$100m on the "Mashour", the largest dredger ever built, which arrived last July. The aim is to deepen the canal a further 5ft to 68ft by 2000, and to 72ft by 2007. This would enable it to take ULCCs and VLCCs of more than 180,000 dwt (deadweight tons) fully-laden and 560,000 dwt in ballast.

But 10 years is a long way off. By that time, according to port and navigation specialists at a conference in Ismailiya last month, yet another competitor to the SCA could have emerged in the form of the Northern Sea Route (NSR).

Once the stuff of science fiction, the NSR, which passes through the Arctic circle, "has been in use in summer months for 20 years, but you need an ice-cutter ahead of the vessel", according to one navigation specialist.

At present a vessel from Japan going to northern Europe by the NSR would take "under a month" compared with 18 to 20 days for a vessel going via the Middle East. But the NSR, once commercially viable, could take away some of the Suez Canal's northern Asian traffic and reduce it to little more than a regional backwater, serving Gulf and Mediterranean ports.

The canal's problems are more immediate, however. Privatisation of the SCA is a remedy that has already been mooted and rejected. But the critics will not go away. "The SCA has been a state monopoly for too long," said one Gulf shipowner. "It is time for a change."

Ebb and flow of canal traffic

	Vessels Total	Vessels Daily average	Net tonnage Total	Net tonnage Daily average
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1976	16,806	45.9	187,757	513
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1978	21,266	58.3	248,357	680
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1980	20,795	56.8	281,482	769
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1982	22,545	61.8	363,723	997
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1984	21,361	58.4	371,029	1,014
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1986	18,403	50.4	366,094	1,003
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1988	18,190	49.7	356,970	975
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1990	17,664	48.4	411,267	1,127
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1992	16,629	45.4	369,617	1,010
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1994	16,370	44.8	364,487	999
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1996	14,731	40.2	354,974	970

* Only 210 transit days. Source: Suez Canal Authority

PORTS AND CUSTOMS • by Robin Allen

Expensive problem at the quayside

Oiling the wheels means additional outlay – and rain can push up 'storage fees'

Ask any private sector businessman or embassy commercial officer to identify the main difficulties of doing business in Egypt, and you can be almost certain that corruption and red tape in the ports will feature high on the list.

"At the macro level, the government's economic reform programme is going well enough," said one senior commercial diplomat. "But the actual mechanics of doing business is altogether different. Ministerial regulations on port and customs procedures may read well, but they are not implemented." Alexandria, he added "is a shambles".

Between 80 and 85 per cent of all Egypt's trade passes through Alexandria or nearby Dikheila. The rest is divided between Suez, Port Said and Damietta. Because of its importance, most criticism is levelled at Alexandria. But other ports come in for their share of acid comment.

Nor is the Suez Canal Authority exempt. Shipping companies complain it is turning a blind eye to arbitrary surcharges for moorage and pilotage, and is doing nothing to curb spontaneously inflated fees imposed by some supply companies and ship chandlers in Port Said and Suez.

Not all of Alexandria's port operations come in for the same degree of criticism. Many of the shortcomings of the Port of Alexandria Authority, which manages the port area and the docking schedules and is responsible for maintenance of the gantry cranes and the bonded warehouses, are put down to lack of state funds for new facilities. The actual loading and unloading is done by Alexandria Container & Handling Company, which is reckoned to be "quite efficient".

The real problem is at customs, part of the finance ministry. For example, when a shipload of foodstuffs is unloaded at Alexandria, customs officials often take samples for testing. Unless an importer has "a standing arrangement" with a senior customs official, or is prepared to pay appropriate one-off fees, he may find his products are cleared only a day or two before their expiry date.

Some shippers complain of bills of lading being ignored in favour of every box in a container being scrutinised, resulting in the cargo sitting on the quay for days.

One foreign resident of Cairo complains that the container with his personal effects was held up in Alexandria for a month – and that an old printer, a facsimile machine and some classical music compact discs and tapes have still not been released two months later.

The container sat on the quay for five days because customs officers insisted on ignoring the shipping agent, the bill of lading and the declaration form. On the day they got around to scrutinising the boxes, it started to rain; and it rained for five days. The port has no sheltered area for customs inspection, and they refused to work in the rain.

When the skies cleared, the customs men told the shipping agent their client had to produce a bank guarantee for their estimate of the value of the contents, which, co-incidentally, was the same amount as on the bill of lading.

This took a further 10 days. It took more than another week before the shipper was able to deliver the man's belongings, but only after he had paid the customs E£4,132 for 28 days "storage".

Meanwhile, amidst the chaos of Alexandria's port, the customs, which make a habit of impounding all "seditious" material like fax machines and compact discs from every container, are still assiduously tracking Beethoven and Rachmaninov for any movements of foreign spies.

"Chaos breeds opportunities for corruption," said a senior commercial diplomat. "And chaos will continue so long as port and customs officials are paid a pittance."

The basic monthly salary of a customs official is E£700 to E£1,000, but most can make 10 times that amount by doing other jobs – and by graft. Even government ministers are paid only E£2,000 a month, but there are perks and bonuses even for minor discomforts such as attending conferences.

Some companies with long experience of Egypt's ports and customs add 10 per cent to the bid price when they tender for a contract. This provides some security against inertia, corruption and red tape at the ports in the event that they win the business.

"Privatise port management and shipping services" is a constant refrain from the private sector. But proposals in parliament have got nowhere. So far the government has effectively deterred potential investors by insisting they pledge unacceptable amounts for new capital equipment.

The ports cannot be privatised without the customs first being cleaned out, senior diplomats say. "You also have to think in terms of dividing up the different areas of port management."

But businessmen are not giving up. "When you talk about Alexandria," said Mr Kamel Sid Ahmed, vice-chairman of the Alexandria Businessmen's Association, "you are talking about the port. It is Egypt's lifeline. It has to be modernised. Only the private sector can do that. Then we will see new businesses emerge and new jobs created in the whole area."

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- ☐ **The Gulf: International Business and Competing Foreign Interests** London, 25 & 26 November 1996 (conference proceedings)
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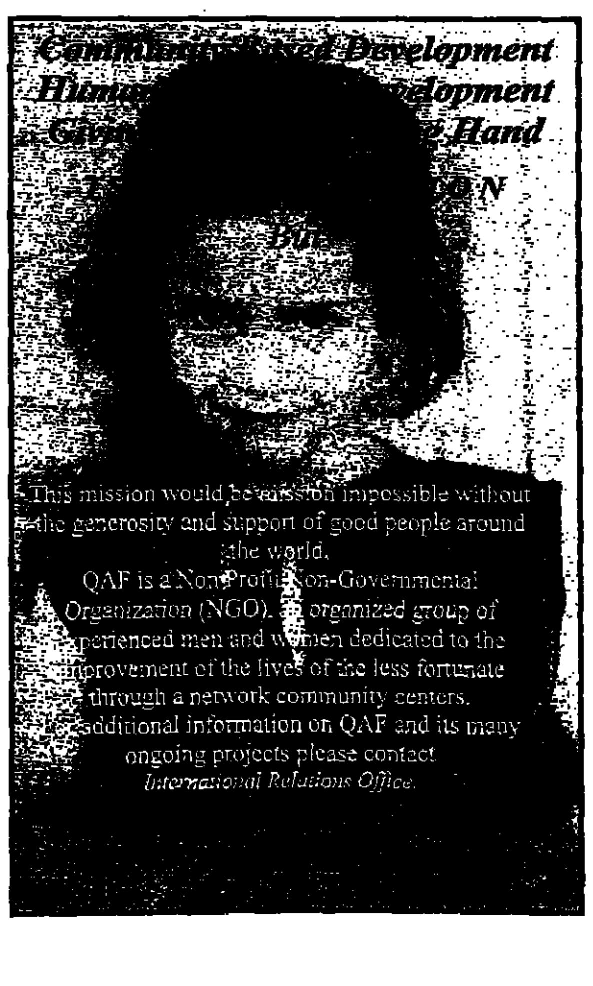

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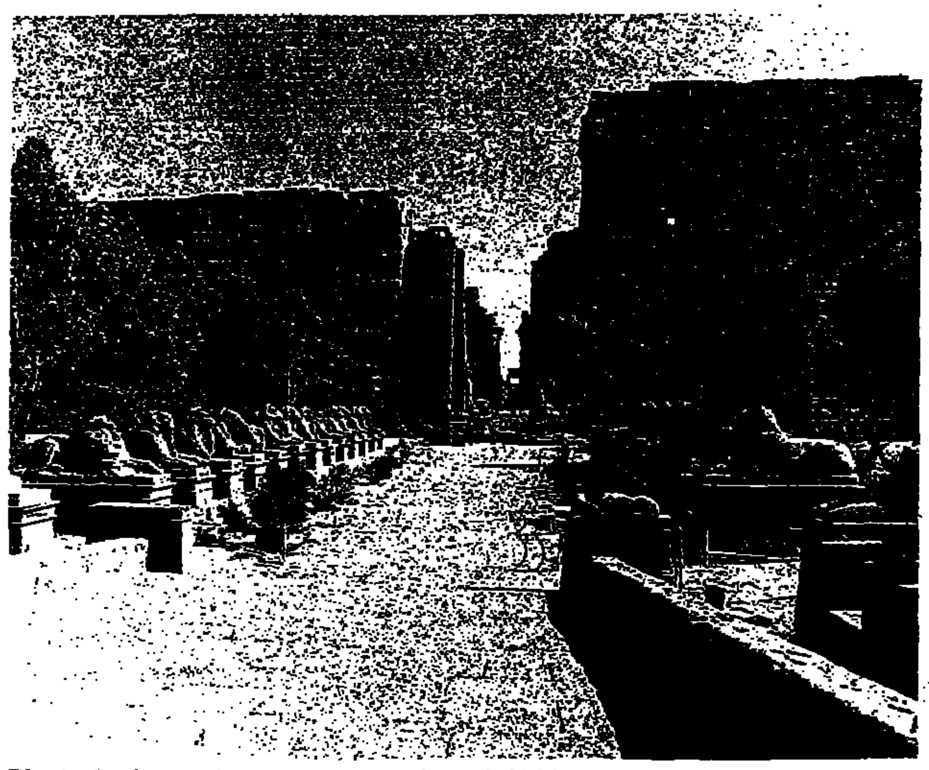

Change of theme: Efforts are now being made to attract tourists to new beach resorts instead of the traditional cultural destinations such as the Karnak Temple (right)

Photos: Norbert Schiller and UPPA

TOURISM • by Mark Huband

Something big to sing about

Diversification has turned the country into a year-round destination

Boom time may well have arrived for Egypt's tourist industry, after the relative low of the early 1990s, which was caused by a combination of insecurity and uncertainty about which direction this $3.09bn industry should take to maximise its potential.

Plans for the staging of Verdi's opera Aida in the Temple of Queen Hapshetsut at Luxor in October, with a purpose-built arena capable of seating 3,000 people, is the latest sign of the industry's revival, according to Mr Mamdouh el-Beltagui, the minister of tourism.

"There's a real boom. We almost reached 4m visitors in 1996, and the 1994-95 season saw our income from tourism increase by 31 per cent to $3.09bn," he says.

"Now there's a diversification of the product, which has made Egypt a year-round destination. It has been a cultural destination, but now the investment is on the Red Sea and the Sinai, to create beach holiday tourism, but with facilities for conferences and exhibitions as well as safaris and cruises."

The first two months of this year saw more than 500,000 visitors, a 16 per cent increase from the same period last year – when the total reached 3.8m. In 1995-96, tourism was second only to remittances from Egyptians living abroad as a source of foreign currency, and outstripping income from petroleum products.

Diversification of the tourist industry has been stimulated by numerous factors, including the improved security for visitors – Islamic militants who attacked tourist groups in the early 1990s have been isolated – and a healthier economic climate.

The introduction of liberal economic reforms since 1993, and the acceleration in portfolio and foreign direct investment to an estimated $2.2bn in fiscal 1996-97, according to the IMF, have been most vividly illustrated in the tourism sector. In March the International Finance Corporation, the private sector development wing of the World Bank, approved a $20m loan and $5m equity investment for infrastructural improvement to the El-Gouna development near Hurghada.

"The tourism sector has been the single biggest winner from the reforms," Mr El-Beltagui says. "The private sector has been responsible for 100 per cent of tourism development since 1993, since when there's been no direct state investment in tourism, except in related infrastructure. The state has limited its interests to promotion and marketing, for which it now has a $22m budget."

The key to the industry's ability to diversify has been the government's decision to sell land cheaply to developers in potential tourist areas. Egyptian finance houses have been able to raise funds both internally and abroad, in partnership with Egyptian and foreign investors. Mr El-Beltagui estimates that 25,000 more hotel rooms will be available by 2000.

Selective 10-year tax holidays, the privatisation of state-owned hotels, the easy repatriation of profits and invested funds for foreign investors and as well as plentiful supplies of cheap labour for construction and the improved security situation, have transformed Egypt into a promising target for investors – many of them well-established Egyptian business people now keen to diversify their interests.

"The need is to make Egypt a resort destination, not just one related to the antiquities," says Mr Khaled Sheta, vice-chairman of IGI.

"This is particularly the case in Sinai, which is where the private sector is going in," said Mr Sheta. "The government has realised it can't do everything by itself." IGI and four of Egypt's leading investors are creating a E£1bn luxury, five-hotel resort at Taba Heights, a beach site 12-miles inside Egypt's border with Israel.

At Taba Heights, as well as at a similarly resort project at Soma Bay, south of the Red Sea town of Hurghada, the government has tried to provide infrastructure which will facilitate the participation of the private sector.

It is building an international airport at Taba Heights and Soma Bay has been connected to Hurghada by an 800-line fibre-optic telephone cable, the cost of which it divided equally with the Abu Soma Development Company, the group of investors developing that area.

Both the Soma Bay and Taba Heights projects are intended to promote Egypt as a top-class destination for tourists from all over the world. The developers are keen to stress how different their projects are from what already exists.

"Soma Bay isn't Hurghada," says Mr Reda Gargour of the Egyptian Finance Company, the main mover behind the development. "We want to make sure this comes across. We are a stand-alone destination," he says, showing the extent to which new developers wish to disassociate themselves from the ill-planned and generally tasteless buildings which dominate the Hurghada seafront.

The government views the new tourism developments, located in some of the more isolated areas of the country, as a benefit in regions which can be used for little else.

"Eighty per cent of potential and actual tourist sites are undeveloped," Mr El-Beltagui says. "There's 1,080km of beach along the Red Sea, but it's largely undeveloped. In these areas, like Soma Bay, there's no other possible activity than tourism. We're not keen to sell the land, but the government doesn't have the money to spend on resorts."

The government has guaranteed a $130m World Bank loan, $50m of which went to the Soma Bay development. The rest will be used in the coming years to provide the infrastructure the government now views as its responsibility, either on its own or in concert with the private sector.

CASE STUDY

Playgrounds in the desert

It is difficult to imagine the computer-controlled sprinklers gently watering the 18th hole, or the [illegible] of visitors sipping sundowners on the terrace of one of the luxury villas which will look across the turquoise bay towards the jagged peaks of the Jebel Shayib el-Banat.

By next spring, [illegible] of barren limestone and coral at Ras Abu Soma, a spit of land on the Red Sea coast an hour's drive south of Hurghada, will no longer be the sunbaked building site it is now.

A self-sufficient tourist community, which will eventually have up to 13 luxury hotels, a championship golf course, town houses, villas, cycle tracks, shops, a marina, diving centre, open-air cinema and casino, will give a glossy sparkle to what is now a desert with a few forlorn specks of greenery.

Abu Soma, whose first $150m development phase has concentrated on bringing infrastructure to an area which even as a former air force base did not have mains electricity, is one of the many highly ambitious tourism projects which lie at the heart of Egypt's dramatic tourist expansion and diversification.

"We are self-sufficient. We are basically able to finance this entire resort, and build up to 13 hotels. It's fantastic. We're making water, making electricity, and we have a group of blue-chip investors ready to take a risk on Egypt," says Mr Reda Gargour of the Egyptian Finance Company, which has been most active in attracting investment to the project.

The project already boasts two 4MW diesel generators – there is space for two more – as well as a water desalination plant, and a near-complete water tower and sewage treatment plant.

The 7,200-yard golf course, designed by Gary Player, will be planted with four different types of grass. It will be watered by a 2,200-head sprinkler system using desalinated water. A weather station will instruct a computer which particular sprinkler-heads should be switched on, to maintain a perfectly even course – even around the rather windy edges of the coral-fringed peninsula. The clubhouse will have 40 bedrooms and three restaurants. There will also be tennis and squash courts.

Two hotels – a 340-room Sheraton and a 300-room Robinson – are already well under way. Both are expected to open by spring. Both will run down to the southern shore of the peninsula, and are being designed and built to European five-star specifications.

Hyatt has staked out a plot for a 350-room hotel, and 10 other plots have been set aside for other hotels.

Residential villas set around three man-made lakes linked by a stream are intended to attract the super-rich in search of peace and quiet. Plots have been staked out and snapped up for villas with their own swimming pools, in hacienda or oriental styles, served by shops and leisure facilities.

The company, established in 1991 with capital of E£300m, brought together EFC, which has 79 per cent of the project, the International Finance Corporation, the Egyptian Tourism Development Company and individual investors.

Mark Huband

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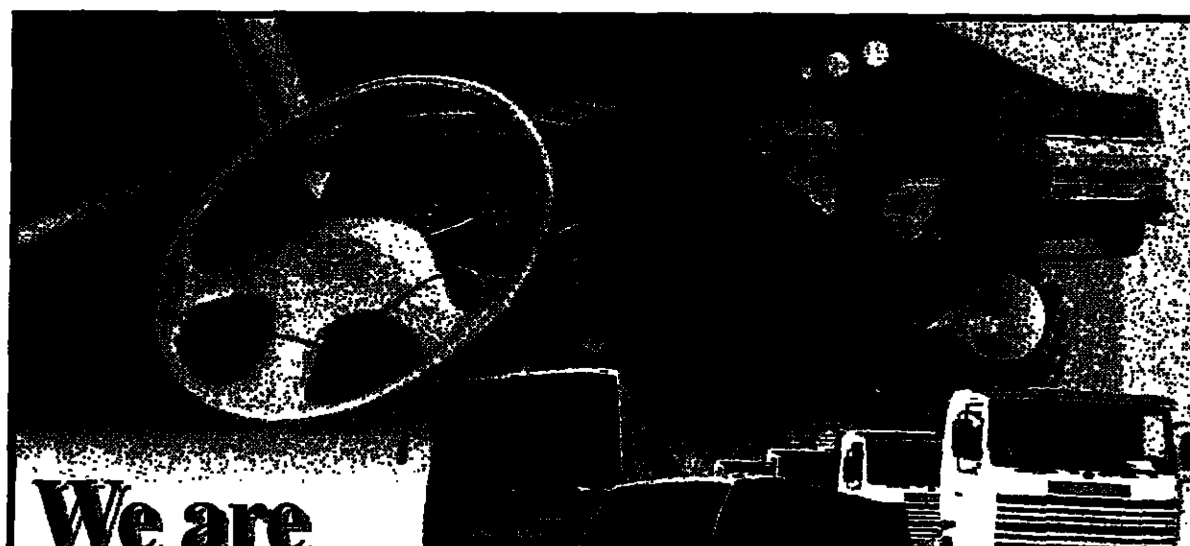

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  Fully Fledged Distributors of Mazda cars & LCV's, Buses, Minibuses, Luxury Coaches, Scania Generators, Brother Industrial Sewing Machines, Furniture & Home appliances.
- International Trade & Storing Free Zone Co. S.A.E.
  Import / Export & Storing.
- Ghabbour Continental.
  Import / Export & Storing.
- Ghabbour International Trade & Free Zones Co. S.A.E.
  Import / Export & Storing.

Head Office: 21,23 Giza st. Giza - Egypt Tel.: (202) 5702711 (20Lines) - Fax: (202) 5700505